Austria	Sch30	Indonesia	Rp3100	Pakistan	Rs35
Bahrain	Din0.950	Iran	Rls210	Philippines	Pso40
Belgium	BFr60	Israel	Shk4.50	Poland	Zl 15,000
Cyprus	C£1.00	Italy	L2200	Portugal	Es175
Czech	Kcs36	Jordan	JD1.20	Qatar	QR10.00
Denmark	DKr13	Korea	Won 2000	S.Arabia	SR8.00
Egypt	E£3.50	Kuwait	Fils500	Singapore	S$4.10
Finland	FM10	Lebanon	L£5,000	Spain	Pta175
France	FFr8.00	Lux	LFr60	Sweden	SKr13
Germany	DM3.00	Morocco	MDh10	Switz	SFr2.70
Greece	Dr200	Neth	Fl 3.50	Thailand	Bht50
Hungary	Ft145	Nigeria	Naira15	Tunisia	Din0.950
Iceland	IKr180	Norway	NKr13.00	Turkey	L5000
India	Rs25	Oman	OR1.20	UAE	Dh8.00

EUROPE'S BUSINESS NEWSPAPER

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BERMUDA
A shelter from economic storms
Section IV

World News

Senators told harassment claims made a decade ago

Four acquaintances of Anita Hill, the former aide who has accused US Supreme Court nominee Clarence Thomas of sexual harassment, told the Senate judiciary committee that they first learned of the incidents from her a decade ago. Page 16

Croatian relief on way
An EC-led convoy carrying humanitarian aid to Vukovar, eastern Croatia, succeeded in negotiating safe passage to the besieged city after Serb reservists and federal army units shelled and completely destroyed nearby villages. Page 16

Energy tax nearer
EC environment ministers reached what Brussels officials described as "a turning point" in Community environment policy by accepting in principle the European Commission's plan for an energy tax to combat global warming. Page 16

Baker in Cairo
US secretary of state James Baker arrived in Cairo at the start of his eighth Middle East peace shuttle since the end of the Gulf War.

Arms talks go well
America's top general Colin Powell and Soviet chief of staff General Vladimir Lobov said after talks on arms in Vienna that they had full confidence in each other and would intensify their contacts.

German police fears
Two missing German policemen were feared murdered after pools of blood were found in a country car park. Their burned-out car was riddled with bullet holes. Kohl call on racism, page 16

Boost for Rao
India's Congress government of P.V. Narasimha Rao was strengthened by an announcement that Sonia Gandhi, Italian-born wife of the assassinated former prime minister, will not stand in a key by-election next month. Page 4

Spanish rift deepens
Groups representing most of Spain's judges and magistrates called for the sacking of interior minister José Luis Corcuera, deepening a rift between the government and the independent judiciary. Page 3

Turks bomb Kurds
Turkish aircraft bombed Kurdish villages in north Iraq for the third day running, throwing into doubt the recent rapprochement between Ankara and the Iraqi Kurdish leadership. Page 4

Help sought for Hanoi
A group of western industrialised countries, headed by France, is attempting to help Vietnam qualify for IMF aid. Page 6

Bulgarians vote
Bulgarians went to the polls to elect a new parliament for the second time since Todor Zhivkov's communist regime was toppled in a bloodless palace coup in November 1989. Page 2

Brazil child crisis
President Fernando Collor de Mello, calling Brazil's 15m abandoned children a national catastrophe, announced a programme to help them.

Thailand fights Aids
Thailand has launched one of the most aggressive campaigns against Aids. Page 6

Sweden wins golf
Sweden's golfers defeated South Africa 2-1 to win the Dunhill Cup at St Andrews, Scotland. Rugby World Cup scores: New Zealand beat Italy 31-21; Western Samoa beat Argentina 35-12; France beat Canada 19-13.

Business Summary

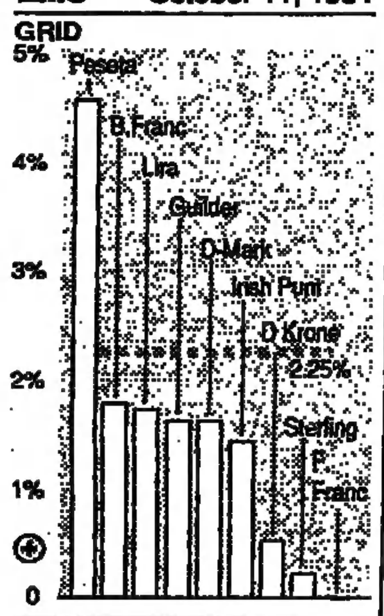
BAe drums up support for $743m rights offer

British Aerospace's chief executive plans a whirlwind tour of institutional shareholders over the next two weeks to drum up support for the company's £432m ($743m) rights offer.

On Friday, the company's share price closed at 371p, well below the 380p price for the new shares. BAe's advisers believe the share price must rise above 400p in order to induce shareholders to take up their rights. The offer closes on October 28. Page 17

EUROPEAN Monetary System: Sterling spent much of last week at the bottom of the Exchange Rate Mechanism grid as domestic political concerns came to the fore. But intervention by the Bank of England kept sterling comfortably above its floor against the D-Mark. The Spanish peseta remained the strongest currency within the ERM, bolstered by high money market rates and the threat of intervention by the Bank of Spain.

EMS October 11, 1991



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

INVERGORDON Distillers, Scotch whisky group facing a £350m ($602m) hostile bid from Whyte & Mackay, UK drinks arm of American Brands, denied that it was considering cross-shareholdings with any group to keep its independence. Page 20

RODAMCO, Netherlands' largest property investment group, and ABP, the big Dutch civil servants' pension fund, said that they are considering co-operation in foreign property investment. Page 21

CROSS-BORDER mergers and acquisitions in the third quarter of 1991 fell to the lowest level since international deals were affected by the world stock market crash in October 1987, according to KPMG Peat Marwick, accountants and consultants. Page 17

JAPANESE equities: Fund managers are taking a positive view of Japanese equities and plan to increase holdings, said a survey for Smith New Court, international investment house. Page 21

ALCAN Aluminium, Montreal-based company, has blamed poor prices caused partly by heavy Soviet metal sales for a 94 per cent fall in third-quarter net income to $6m, or zero cents per share. Page 21

NOVA Corporation of Alberta has slashed its quarterly dividend by more than half, from 13 to 6 cents a share, and delayed plans to hive off its gas pipeline and chemicals businesses into two separate companies. Page 21

EC ministers optimistic after Kohl backs plan to cut farm aid

German move lifts Gatt talks

By David Dodwell, World Trade Editor

THE STALLED talks on the reform of world trade were revitalised at the weekend following a reversal of German policy on agricultural prices by Chancellor Helmut Kohl.

European Community trade ministers meeting in The Hague learned that Mr Kohl had told his cabinet that it would be "a catastrophe" if the Uruguay round of the General Agreement on Tariffs and Trade, now nearing its conclusion, did not succeed.

Ministers left the two-day meeting saying they were confident of "reaching substantial results" in the Gatt Uruguay round by the end of the year.

Mr Frans Andriessen, vice-chairman of the EC Commission, said he was confident that he had won the elbow room his staff needed to negotiate on the Community's behalf.

Mr Kohl's decision to support trade reformers pressing for reductions in the EC's costly agriculture subsidy system comes after a protracted debate inside the German cabinet. This is one of Germany's most sensitive political subjects and the farming lobby has forced the government to tread warily on reform.

The shift in Germany's position was reported to the trade ministers by Mr Jürgen Möllemann, the German economics minister.

"There has to be a change on the EC's position in agriculture, including export subsidies," he said, indicating that Germany had broken with its previous insistence that farm price supports remain high.

The Uruguay round of Gatt collapsed last December when the EC refused to accept proposed cuts in its extensive agricultural subsidies programmes, which cost European taxpayers £7bn ($12bn) last year.

The US and the 14-member Cairns Group of agriculture exporting nations demanded cuts in EC farm subsidies of between 75 per cent and 90 per cent. The EC was only willing to offer cuts of 30 per cent, using 1986 as the base year for calculation.

The German shift has isolated French and Irish officials, whose governments sought German support in limiting cuts in farm subsidy spending. They can be expected to lobby hard in defence of farm subsidies at an EC agriculture ministers meeting planned next week.

Germany's move provides fresh evidence of a rift in the Bonn-Paris axis which would need to be intact if the French are to remain confident of successfully limiting subsidy cuts.

While French officials cancelled plans for a press briefing at the end of the two-day trade ministers' meeting, Mr Des O'Malley, Ireland's trade minister, expressed "grave concern" at developments. The Germans were "very anxious that an agreement be reached very quickly, irrespective of what the costs may be".

He added: "They are far more emphatic than they were in the past in abandoning agriculture pretty well in its entirety." At an official briefing at the end of the meeting, Ms Yvonne van Rooij, Dutch trade minister, claimed it had been successful in reconciling internal differences on the EC's negotiating position in the world trade talks, but she gave few details.

"The ministers were of the opinion that we really have entered the final stage of negotiations and all delegations reaffirmed the objective of reaching substantial results in the negotiations by the end of this year," she said.

On agriculture in particular, she said the EC Commission had "enough indications to be able to conduct further negotiations in a constructive manner".

A "sense of urgency" was apparent at the meeting, she said – a clear riposte to Mrs Carla Hills, the US trade representative, who said in Kuala Lumpur last week that the EC must show the political will to move the stalled talks forward.

Last Friday Mr Arthur Dunkel, Gatt director general, warned trade negotiators that they had to finish their work by November 1. If agreement was not reached by then, draft texts would be prepared by chairmen of the negotiating groups and put to governments to take or leave.

Implicitly, his message was that if the main trading powers did not now move to bridge the remaining gaps on critical issues such as farm trade, services, intellectual property rights, textiles and clothing, and tariff cuts, the most ambitious effort ever made to liberalise world trade would have to be abandoned.

Mr Andriessen said after the trade ministers' meeting that his staff needed continuous policy guidance, and "a certain margin of flexibility" if it was to negotiate on the community's behalf.

"Both of these have been given, which confirms me in my conviction that as far as the EC is concerned, we will be able to make the goal we have set ourselves of a positive and satisfactory conclusion by the end of the year," he said.

Kohl condemns racism, Page 16

G7 agrees to sustain help for Soviets

By Stephen Fidler and Peter Norman in Bangkok

THE GROUP of Seven leading industrial countries yesterday committed itself to a sustained role in the Soviet Union's efforts to integrate its economy into that of the capitalist world.

After meeting in the Thai capital, where the International Monetary Fund (IMF) and World Bank hold their annual meetings this week, the G7 backed Soviet plans to restore its creditworthiness through comprehensive economic and constitutional reform.

But the Soviet delegation neither asked for, nor received, pledges of financial support beyond existing commitments for food and humanitarian aid from the finance ministers of the US, Japan, Germany, France, Britain, Italy and Canada.

The Soviet reticence allowed the G7 countries to avoid an embarrassing public admission of disagreement over what course to take should the Soviet Union need help to cover its external financing requirements.

United European opposition and Soviet assurances that they would be able to service their estimated $60bn (£34.8bn) of foreign debt forced the US not to press its plans for a deferral of Soviet debt payments. The Europeans, and the Germans in particular, would lose most from such a move. They believe debt deferral, or any form of rescheduling, would destroy the Soviet Union's creditworthiness.

In a speech prepared for delivery to the IMF's policy-

Continued on Page 16

Terry Kirk

Nicholas Brady, Treasury secretary, (left) and Alan Greenspan explain the US position on the Soviet economy yesterday

Rolls-Royce may sue Air India

By David Housego in New Delhi

ROLLS-ROYCE, the British aero-engine maker, is considering sueing Air India for breach of contract after its decision to switch a £87m ($150m) order to Pratt and Whitney of the US.

Air India announced at the weekend that Pratt and Whitney would supply 22 engines plus spares for four Boeing 747-400s it has ordered. A year, ago Air India told Rolls-Royce that it would purchase the British group's RB211-524 engines subject to obligatory government approval. The airline has taken out an option with Boeing on five more aircraft.

The order is the third blow to Rolls Royce's position in the space of two months at a time when it is also coping with flailing defence orders. In late August British Airways, one of Rolls Royce's most important customers ordered engines for its Boeing 777 aircraft from General Electric of the US. Earlier this month All Nippon Airways cited British Airway's rejection of Rolls Royce as the reason for not ordering UK engines for its Boeing 777 fleet.

What has angered Rolls-Royce is that the British engine was apparently dropped as a result of the recommendations of a government-appointed committee of inquiry.

Rolls-Royce has challenged the competence of this inquiry and its findings that the Pratt and Whitney engine was technically the better engine.

This is "potentially damaging to our reputation", said Mr Stewart Miller, Rolls-Royce's managing director, who has been in New Delhi since Thursday. He said that Rolls-Royce, in the interests of its reputation could not allow the evaluation to go unchallenged.

After the committee of inquiry report, Pratt and Whitney and General Electric were asked to submit fresh bids. No such proposal was made to the British group.

Mr Miller said yesterday that before deciding on further action, Rolls was seeking clarification from the Indian government about its decision.

British government attempts to take up the issue have had little success.

India is a substantial market for Rolls-Royce. The British group has supplied engines for the Harrier and Jaguar jet fighters, for the Westland-30 helicopter, and been involved in the construction of large power plants.

Second Chernobyl accident shows safety still poor

By Chrystia Freeland in Chernobyl

JUST five years after the Chernobyl nuclear disaster, a second industrial accident at the atomic power plant at the weekend has revealed the appalling safety standards which still prevail at Chernobyl and other Soviet nuclear plants.

Over the weekend a fire raged for six hours at the second reactor, blowing the roof off the turbine room and forcing the reactor to be shut down.

Government officials say the fire did not release additional radiation, but the first western journalists admitted inside the turbine room yesterday saw rain pouring in on the charred generator through a gaping 2,300 sq m hole in the roof.

Nervous officials at the power plant admitted that the fire could easily have spread through the turbine room and consumed all six turbines. If that had occurred, or if the fire had broken out in the third block, structural damage could have been done to the sarcophagus which seals the melted-down fourth reactor.

"This is a terrible shadow, I would even call this a cursed place," said the Ukrainian environment minister, Mr Iuri Shcherbak. "The sarcophagus is the single most dangerous atomic point in the world. Our people are right to tremble when they hear the word Chernobyl."

On April 26 1986, there was an accident at the fourth reactor which claimed 30 lives immediately and contaminated vast areas of the Soviet Union and northern Europe.

Mr Viktor Hladush, the Ukrainian minister of industry and transport, admitted at a press conference yesterday that the latest fire revealed that safety standards were still dangerously low at Chernobyl and the Ukraine's 14 other nuclear reactors. He also acknowledged that the RBMK Soviet-type reactors are far more dangerous than their western counterparts.

Nonetheless, Mr Hladush said that the Ukrainian government – which now has de facto control of the republic's nuclear reactors and will take over formally by December 1 – has no immediate plans to shut the reactor down sooner than 1995, the target date announced before the fire. Last week the Ukrainian

Continued on Page 16

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THE MONDAY INTERVIEW

Guinness chairman Anthony Tennant, has restored the company's battered reputation. His strategy is based on a conviction that as consumers become more affluent they choose to drink better-quality, higher-priced products. Page 32

FT SURVEYS THIS WEEK

World Economy: A long queue of hopefuls waiting to sup at the rich man's table. *(See separate section)*

Yeltsin plans to reshuffle Russian cabinet

By Leyla Boulton in Moscow

PRESIDENT Boris Yeltsin was reported yesterday to be planning a government of "national confidence" to win back popular trust after a damaging power struggle among his colleagues in the Russian leadership.

Postfactum news agency, which issued the report, gave no other details except to say he was going to sack the present cabinet.

The government of the largest Soviet republic, which is divided over whether Russia should go it alone or support a new economic union, has been due for an overhaul since the resignation of its prime minister, Mr Ivan Silayev, who now heads an interim union government.

But it is unclear whether Mr Yeltsin will bring in new blood or retain the present combination of former Communist party officials and inexperienced figures from the victorious "democratic" camp.

Mr Yeltsin has also agreed to sign the treaty of economic union rejected in his absence by a handful of government ministers. Underlining his support for the treaty, Mr Yeltsin also turned down a resignation offer from Mr Yevgeny Saburov, the economics minister who initialled the accord in Alma-Ata on October 2.

But the fact that he has called for the treaty to be changed to allow a more flexible central banking system suggests it may require some more extensive negotiating.

The creation of an effective central banking system to conduct monetary policy is essential to help stabilise the rouble. But the question of central banking has been the most bitterly contested issue in negotiations so far.

Russia is seeking a weighted voting system for decision-making in a central banking union but smaller republics are demanding equal representation.

Mr Yeltsin also now faces dissent in the Russian parliament, which on Friday set impossible conditions for signing the treaty this week. Concerned that Russia's economic interests could subsequently be betrayed, parliament demanded that 17 detailed agreements setting out the terms for operating a new economic union should be concluded before the treaty itself is signed.

Some of the parliament's conditions would make a union unworkable, such as the demand that every republic should have veto rights.

Mr Nursultan Nazarbayev, president of Kazakhstan, said he believed Mr Yeltsin would be able to stick to the agreement to sign this week.

"Although it is not easy for him as leader of the Russian Federation, where there so many different opinions, he still came out in support of the treaty," Mr Nazarbayev told reporters on Friday night. "I am inclined to trust him."

'Non-war' makes life a struggle for Serbs

By Laura Silber in Belgrade

SERBIA'S cities have not been bombed and destroyed. But the war is eroding everyday life as people struggle to head off catastrophe.

An atmosphere of desperation at the weekend gripped Belgrade, the Serbian and federal Yugoslav capital.

A political shouting match broke the rhythm of a bustling market in the city centre. A group of peasants at Zeleni Venac, a local market, gathered round Mr Batric Jovanovic, a delegate from Serbia's ruling Socialist party. They demanded to know the goals of the war.

Mr Jovanovic, a veteran politician who has served the party since communist Yugoslavia was founded after the second world war, repeated the party line: "Serbia is not at war."

"But why was my friend drafted and wounded if we are not fighting a war?" asked a peasant whose hands were edged in soil after years of farming.

The crowd swelled as shouts of "Down with the Communists" drowned out the usual bargaining over prices.

Overflowing with peppers, beans, and aubergines, the Zeleni Venac attests to this year's record harvest in Serbia. But the petrol queues which snake around the city warn of a harsh winter. Croatia has stopped oil deliveries to Serbia, which must use its scarce hard currency to import fuel.

Black marketeers flashed wads of bills, offering "marks, dollars" to those asking the price of hard currency. "This is like the Soviet Union, this has never happened before. Serbia is plunging into poverty," said a Belgrade student.

At nearby Knez Mihailova street in the heart of Belgrade people rushed to spend before a price rise. "They're printing money. Soon this will be worthless," said a man holding a 1,000 dinar note. "It's so new I can cut my finger with it. This is how they're financing the war."

"Winter will be harsh. There is no market, there is no production," said a Belgrade doctor, whose monthly wage equals $300. "This Saturday alone the corpses of 16 soldiers killed at the front arrived in the central military hospital. They cannot be identified because federal army soldiers do not have dog tags."

The media warn of harsh punishment for those who escape mobilisation. Thousands of Serbs have fled the country, while even greater numbers have gone into hiding. A news broadcast on Saturday repeated that Serbia wants peace. But a few minutes later it announced special phone numbers for "volunteers to join a newly formed division in central Croatia".

Serbia's authoritarian regime has so far succeeded in blaming all its woes on the "fascist regime" of Croatia and the "enemy plots" of Germany and Austria. But fear is spreading throughout Belgrade of a conflict between Serbs as opposition to the regime grows despite the claims of Serbian unity.

At the green market, a peasant women tells the crowd to disperse so she can sell her peppers to make ends meet.

Another man warns: "When the war invalids and soldiers return they will expect rewards from a republic whose coffers are empty. Then there will be war in Serbia."

President Zhelyu Zhelev acknowledges applause at a Sofia polling station yesterday

Moderate re-elected in Soviet republic

By Gillian Tett in Moscow

MR Askar Akayev was re-elected president of the Soviet central Asian republic of Kirghizia at the weekend in the first direct presidential elections held in the region.

Mr Akayev, a quantum physicist by training, received 95 per cent of the vote, as the only candidate in the elections.

A moderate, he has ruled Kirghizia for over a year, after the democratic opposition united with moderate communists to force the resignation of the previous hardline communist leadership last autumn.

In spite of his previous Communist party affiliation, Mr Akayev's government is widely perceived as considerably more reformist than the authoritarian leadership that still dominates the other central Asian republics.

The Kirghiz Democratic Movement, the main opposition party in the republic, said yesterday that it supported Mr Akayev, although it criticised the elections as undemocratic.

"It's difficult to have a democratic election when there is only one candidate," said Mr Topchubek Turgunaliez, leader of the Kirghiz Democratic Movement.

Split leaves Bulgarian poll in doubt

By Judy Dempsey, East European Correspondent

BULGARIANS yesterday went to the polls to elect a new parliament for the second time since Mr Todor Zhivkov's communist regime was toppled from power in a bloodless palace coup in November 1989.

Opinion polls show that no one party is expected to gain an absolute majority. The Socialist (former Communist) party (BSP), which won 44 per cent of the vote in the country's first free elections held in June 1990, hopes to gain about 30 per cent of the vote, much of it from the conservative countryside.

More than a quarter of the labour force, or about 1.5m of the 6.3m citizens who are eligible to vote, are employed in agriculture.

However, the Union of Democratic Forces (UDF), under which more than a dozen political parties are organised, is expecting to push up its share of the vote from 30 per cent to more than 55 per cent.

The UDF'S power base rests in the cities. But because of the continuing influence of the BSP in the bureaucracy, state enterprises, the army and the countryside, the UDF will not be able to marginalise the BSP politically.

Moreover, the UDF, which is divided into four factions, has been politically handicapped by bitter infighting on which the BSP has capitalised. Continuing disagreement in the UDF after the election results – unofficially they are due early today – could make it hard to form a government.

Depending on the results, Bulgaria may again be faced with a coalition government containing the BSP. Mr Zhelyu Zhelev, the shy, politically independent president, who threw his full support behind the UDF in its last election rally on Friday, yesterday said: "I wish for things to improve, for a victory for democracy and for understanding between political forces."

The UDF's participation in the coalition government following the collapse of the Socialist-dominated government late last year clearly demonstrated that it was committed to pushing through radical economic reform measures linked to a tough IMF-backed austerity programme.

Mongolia secures $250m aid

By William Dullforce in Geneva

MONGOLIA will receive $250m in aid from leading industrial nations and international agencies, the United Nations Development Programme has announced.

At the same time the donors appealed to the Soviet Union to resume its traditional barter trade with Mongolia, under which goods are exchanged rather than paid for with hard currency. Mongolia's trade with the Soviet Union has dropped by 60 per cent in nine months.

Mongolia last year held free elections to install a new government that has embarked on a programme to privatise the economy.

Poland plans gradual zloty devaluation

By Christopher Bobinski in Warsaw

POLAND has decided on a gradual devaluation of the zloty. Mr Andrzej Topinski, the acting head of the central bank, announced yesterday.

The decision to devalue the currency reflects inflationary pressure – prices have risen 40 per cent since the beginning of the year – and a need to defend foreign exchange reserves by boosting exports.

Mr Topinski said: "We would have had to devalue at some point and it's better to do it gradually than with a large jump in the future."

The exchange rate has been a key element holding Poland's International Monetary Fund-approved stabilisation programme in place and the zloty has only been devalued once in the 22 months since the programme began. This was last May, when its value fell by 14.4 per cent against the US dollar. Since then, it has been measured against a trade-weighted basket of currencies.

Mr Topinski said yesterday the creeping peg devaluation system would amount to around 1.8 per cent a month. Prices of goods and services are expected to rise by 3 per cent this month.

E Europe trade system talks

REPRESENTATIVES from the Soviet Union and east European countries are to seek ways to halt a collapse in trade caused by the demise of the Comecon economic bloc, the Soviet news agency Tass said, Reuter reports from Moscow.

The first conference of a new East European Co-operation and Trade (EECT) organisation will be held on October 18.

A Soviet spokesman said a stock exchange with branches abroad, and a bank and trading companies to tackle common problems such as the convertibility of national currencies and the licensing of reciprocal deliveries were planned.

Arms makers face prospects of single European market

By David White, Defence Correspondent

THE EUROPEAN MARKET

A STRONG case for creating a single European market in arms – which have up to now fallen outside the reach of EC rules – is put in a paper drawn up to coincide with preparations for the year-end Maastricht summit.

The paper from the Bow Group, an independent Conservative think-tank, argues that this can be done within the present terms of the Treaty of Rome.

Article 223 of the treaty stipulates that any member "may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material."

This has been taken to permit EC countries to pursue their arms procurement as they see fit, irrespective of any EC rules. But the provision applies to an agreed list of products. This, the paper suggests, could be narrowed down to top-secret items such as nuclear weapons, nuclear propulsion systems and cryptographic equipment, making everything else subject to EC competition rules.

Its call for a fundamental reappraisal of defence industries will form part of a submission from the European Democratic Group of the European parliament for the Maastricht meeting, the culmination of the inter-governmental conferences on political and economic union.

The proposals go much further than initiatives to break down protectionism put forward by the Independent European Programme Group, which brings together 13 Nato allies – the 11 that belong the EC, plus Norway and Turkey. Under a British-inspired scheme, IEPG members now publish bidding opportunities to enable foreign companies to compete for defence contracts. But they are under no obligation to run fair competitions.

The Bow Group report says the IEPG's plan risks being seen as "a smokescreen for national inaction". Neither Nato nor the IEPG, it adds, has the means to ensure a "level playing field" in defence supplies.

"Legally enforceable Community public procurement rules are the only likely way of bringing about truly open defence procurement in Europe in the necessary timespan."

It argues that the defence industry needs this change to be able to adjust. Fragmentation along national lines has led to inefficiencies, duplicated research, escalating production costs, over-dependence on unstable export markets and in many sectors "a loss of competitiveness and long-term economic viability".

Procurement authorities, particularly in the larger countries, have tended to maintain a closed relationship with their defence contractors by excluding foreign companies from competing fully. This has undermined the intrinsic competitiveness of the main European manufacturers and enabled US companies to open up large swathes of the market in smaller EC countries such as the Netherlands.

The report argues that it the distinction between military and civilian industrial sectors is increasingly untenable because of the large number of "dual-use" products, particularly in electronics.

Setting up a Europe-wide defence market would require measures to abolish legal restrictions and barriers to arms trade within the Community, as well as harmonisation of export controls. Common European standards would also need to be established across the whole range of defence products, possibly including even the most security-sensitive.

At the same time the paper calls for consideration to be given to EC financial support for joint research and development projects in defence. This would go beyond the current Euclid programme for basic research in defence technologies, which relies on national governments to finance the projects in which they are involved.

The report also sees an "overwhelming" political case for including the rationalisation of the defence industry within the ambit of the EC's reformed structural funds after 1993, to provide assistance to areas especially vulnerable to closures.

The Defence Industry after the IGCs, by Lord Inglewood and Quentin Hunham, Bow Group, 92 Bishops Bridge Road, London W2 5AB. £12.50.

INTERNATIONAL NEWS

New prime minister seeks to reopen talks with OAS

Haitian hopes rise for return of Aristide

By Canute James in Kingston

HAITI'S military-backed government, appointed after a coup a fortnight ago, has decided that overthrown President Jean-Bertrand Aristide may after all be able to return.

It had previously opposed this, but Mr Jean-Jacques Honourat, the new prime minister, said at the weekend he wanted to reopen negotiations with the Organisation of American States (OAS) to determine the conditions under which Mr Aristide will be able to return to the presidency.

The OAS had earlier failed to get the army, which took over the country after sending Mr Aristide into exile, to allow the president to return. The army established a provisional government, saying elections would be held in three months.

It was not immediately clear whether Mr Honourat had the army's permission to invite new negotiations on Mr Aristide's return, or what conditions the prime minister and the army would accept for the return of the president.

Mr Honourat, a former minister in the Duvalier family dictatorship, toppled five years ago after 29 years in power, has been one of the bitterest critics of Mr Aristide's eight months in office.

Diplomats in Port-au-Prince, Haiti's capital, said yesterday that the request for new talks could be a result of Haitian fears over the impact of trade and other economic sanctions imposed on the Caribbean state since the coup.

Jean-Jacques Honourat: seeking the middle ground

The 34 OAS members, and several other countries, have refused to recognise the army-backed provisional government.

"The return of Mr Aristide without conditions is one extreme, the position of the army is the other extreme," Mr Honourat said. "In negotiations we can find a middle position."

Rumours continued in Haiti yesterday about the possibility of foreign military intervention to remove the military and return Mr Aristide. The rumours were fuelled by advice from the US and British governments to their nationals to leave Haiti as soon as possible.

France to spend more on job creation

By Ian Davidson in Paris

THE French government is to spend an extra FFr7.5bn (£750m) on job creation in the next two years, to try to halt the increase in unemployment, now more than 2.7m and rising.

But it is resisting demands from the trade unions and from within the Socialist party for a shift of economic policy aimed at faster growth and a larger budgetary stimulus. Mrs Edith Cresson, the prime minister, last week publicly endorsed the anti-inflation policy of Mr Pierre Bérégovoy, the finance minister.

She told a trade union delegation the government would stick to its plans for a budget deficit next year of no more than FFr90bn, well down from this year's out-turn.

The new job promotion plan will be financed by the proceeds of partial privatisations of state-owned companies, such as the recently announced partial sales of the Caisse Nationale de Prévoyance (CNP).

Most of the FFr7.5bn will be aimed at promoting the employment of unqualified youngsters, by exempting them and their employers from social security contributions.

Thomas hearings reach a low in melodrama

Sexual harassment is now the talk of the town, writes **Lionel Barber** in Washington

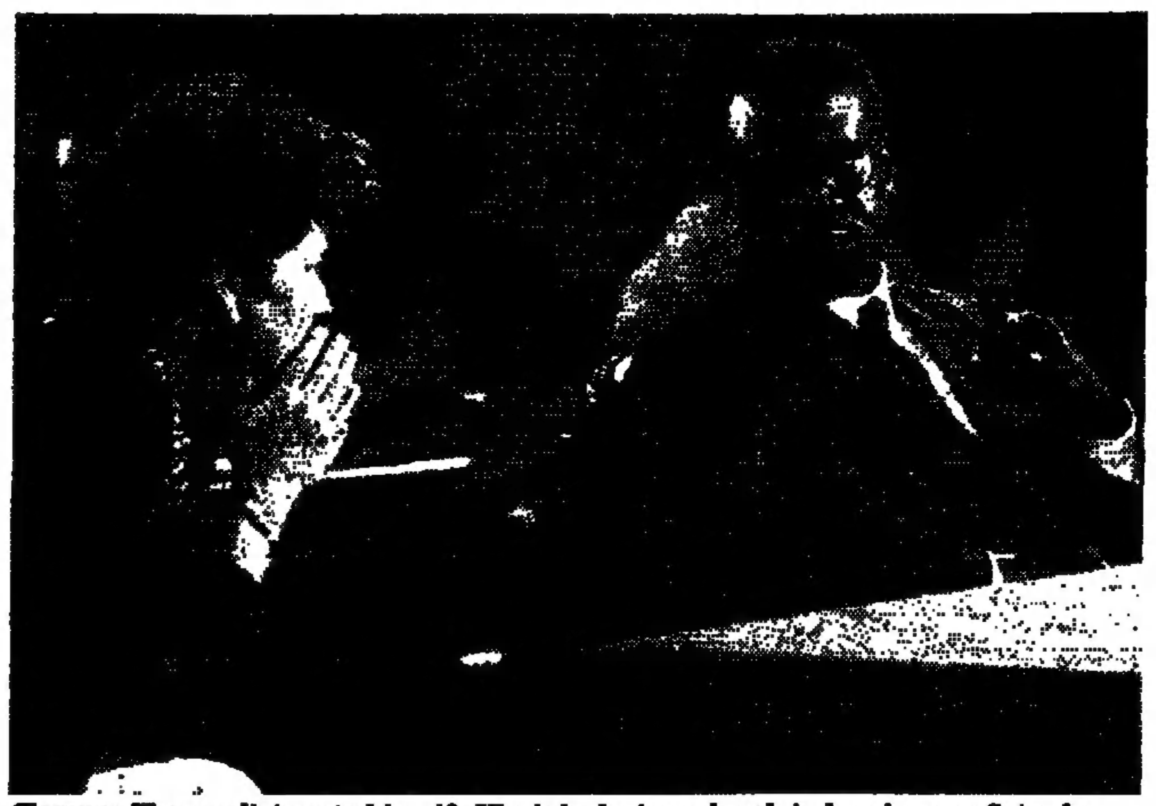
NO ONE can say whether Judge Clarence Thomas, President George Bush's nominee to the US Supreme Court, or his accuser, Ms Anita Hill, a law professor from Oklahoma, is telling the truth.

The Senate judiciary committee continued its extraordinary weekend sitting yesterday. This is less a forensic inquiry, and more an American melodrama.

On Friday night, Judge Thomas, 43, complained he was the victim of a "high-tech lynching for uppity blacks"; on Saturday afternoon, he accused the 14 white, male senators on the committee of playing into bigoted racist stereotypes of blacks, believing all those old stories about blacks boasting of their sexual prowess.

The full-frontal assault took the committee by surprise. It repaired some of the damage caused by Professor Hill, 35, who, during more than six hours of cross-examination stuck to her story that Judge Thomas persistently harassed her with explicit, pornographic suggestions while she worked for him at the Department of Education and the Equal Opportunities Commission in the early 1980s.

Led by Utah Senator Orrin Hatch, the Republicans have torn into Ms Hill in her absence. She is cast as a frustrated *femme fatale*, a fantasist, someone who wants to write a million-dollar best-seller, or, most damaging, a vehicle for liberal pressure groups out to stop the Thomas nomination.



Clarence Thomas listens to his wife Virginia during a break in hearings on Saturday

The confirmation process, everybody agrees, is flawed. Assaults on character, always present in races for elective office, have spilled into judicial confirmation battles.

Mr Bush bears some of the blame by choosing Judge Thomas, who has a heart-rending story to tell of his rise from poverty in Georgia, but whose judicial experience is minimal. Equally, liberal pressure groups, drawing lessons from their defeat of Judge Robert Bork in 1987, have injected a bitter partisan tone into Supreme Court nominations.

The rancour in the Senate, evoking the "red-baiting" of suspected communists during the McCarthy hearings in the 1950s, has come as a surprise. It will only reinforce Americans' low opinion of Congress, but it is also a direct result of frustration.

The Republicans want the president's man on the bench. The Democrats, aware that there has been no Democratic nominee to the Supreme Court since the Johnson administration in the 1960, are worried about the conservative composition of the court.

The paradox is that Judge Thomas, who refused to answer dozens of constitutional questions during his confirmation hearings – at one point he declined to offer an opinion on whether the Korean War was a conflict or a war – now finds himself answering explicit, explosive charges about his sexual conduct which go back 10 years.

Inevitably, the hand-wringing has begun. Judge Thomas and Professor Hill, both Yale Law School graduates, both black, were until last week role models. Both have been subjected to a degrading experience. All the senators on the committee have provoked the wrath of women around the country for failing to investigate fully Professor Hill's original charges, which first surfaced early last month.

About the only benefit of the hearings, everyone agrees, is that sexual harassment – once taboo – is now the talk of the town. Legislation tightening rules in the workplace may now be inevitable.

Agreement in principle on Alpine lorry transit

THE European Community has reached an agreement in principle with Austria and Switzerland over lorry transit through the Alps, the Dutch Transport Ministry said yesterday, Reuter reports from Amsterdam.

This is a breakthrough on an obstacle to talks between the EC and the European Free Trade Association (Efta) on creating an European Economic Area – a 19-nation free trade zone extending from the Arctic to the Mediterranean.

The transport ministers of Switzerland and Austria held four hours of discussions in the southern Dutch town of Eindhoven on Saturday with Ms Hanja Maij-Weggen, Dutch transport minister and chairperson of the EC Council of Transport Ministers, and Mr Karel van Miert, the EC transport commissioner

They did not give details of the accord, which Ms Maij-Weggen described as an "equitable compromise". These will be disclosed at the EC's Transport Council meeting in Luxembourg on October 21 subject to acceptance by EC member governments and those of Austria and Switzerland.

The Transport Ministry said press reports that 40-tonne trucks would be allowed to pass through Switzerland (instead of the current 28-tonne limit) if the railways were unable to handle the trucks at the time were "speculation".

Central to the talks was a planned increase of Swiss railway capacity to enable more road trucks to be carried across the country by rail.

Mr Adolf Ogi, the Swiss transport minister, was quoted in a Swiss newspaper yesterday as saying more capacity on the Gotthard railway line by 1993 would enable all 40-tonne trucks to be transported by rail within the next two years.

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Spanish judges urge minister's dismissal

By Peter Bruce in Madrid

GROUPS representing most of Spain's judges and magistrates called at the weekend for the sacking of Mr Jose Luis Corcuera, the interior minister, deepening a rift between the government and the country's independent judiciary.

Mr Corcuera, a rough, combative former trade unionist, has made himself almost universally unpopular in Spain by trying to push through parliament legislation allowing police to search homes without a warrant and to place people under a form of arrest simply for not being able to identify themselves on the streets.

Practically every judicial authority – except the police – in the country has pronounced against the new law, which is not surprising in a country still recovering from dictatorship. The government has presented it as an attempt to deal with the growth of drug trafficking, although consumption is not illegal. When the bill got to parliament on Thursday, Mr Corcuera laid into his critics.

Some judges deserved "little respect" he said. "I've got nothing against most judges," he said, "but I could tell you a few things about some. Let me tell you." Mr Corcuera's remarks were being directed at judges and magistrates who hand out soft sentences for drug-peddling.

Prime Minister Felipe González said Mr Corcuera's remarks had been "unfortunate" – probably the first time in nine years he has ever publicly criticised a minister. Although he dismissed any suggestion of removing Mr Corcuera from office, Mr González' remarks are a measure of the seriousness of the rift with the judiciary, which is constantly criticised for being too slow and too lenient.

At the same time, the past week has seen tens of thousands of Spaniards take to the streets in poor areas in the country's big cities to mount vigilante attacks on drug-takers and peddlers. Some parts of cities such as Madrid and Barcelona have become virtually impassable because of the number of people dealing in, or consuming, heroin and other narcotics. Used syringes are a common sight on prestigious streets in the capital.

In many cases, the anti-drug protests have boiled over into apparently racist action against gypsy settlements around big towns. Often suspected of dealing in drugs, gypsies and their homes have been attacked. A poll yesterday showed 50 per cent of Spaniards approved of the vigilante patrols and many more wanted gypsy encampments moved. The Socialists are losing support in large cities in Spain because of the growth in drug-related crime, and the government is unlikely to soften Mr. Corcuera's bill.

Kurds in UN plea to halt raids

By **John Murray Brown** in Ankara

KURDISH leader Mr Masoud Barzani is to appeal to the UN Security Council after Turkish aircraft bombed Kurdish villages in north Iraq for the third day running yesterday, throwing into doubt the recent rapprochement between Ankara and leaders of Iraqi Kurds.

In a statement from his headquarters in north Iraq, Mr Masoud Barzani, leader of Iraq's Kurdish Democratic party, described it as a "savage massacre".

The official Anatolia news agency said Turkish ground troops also crossed into Iraq, in a sweep of rebel camps of the Kurdish Workers party PKK, the Turkish Kurds who have exploited the power vacuum to raid Turkish border posts.

Kurdish officials in Ankara called on Turkey to cease the air operation, which has resulted in at least three deaths and 11 people wounded, all of them from burn injuries.

Turkey's action is seen as a reprisal for last week's PKK killing of 11 Turkish soldiers.

With general elections at the end of the week the government wants to emphasise claims the PKK is an external threat despite evidence it is taking root inside Turkey.

US and Moscow pile the pressure on Israel

By **Hugh Carnegy** in Jerusalem, **Tony Walker** in Cairo and **Lamis Andoni** in Amman

MR BORIS Pankin, the Soviet foreign minister, will visit Israel on Thursday, coinciding with a visit by Mr James Baker, the US Secretary of State, in an unprecedented move that will step up the pressure on Mr Yitzhak Shamir's government to give its final affirmation to a Middle East peace conference.

Officials said the joint visit was likely to be the decisive moment in the seven-month-long, US-led initiative to convene peace talks at the end of this month co-hosted by Washington and Moscow.

Mr Pankin, on his first visit to the region since he took over as foreign minister after the failed coup in Moscow in August, will be ready to complete the process of re-establishing full diplomatic relations with Israel, which Israel has insisted upon as a condition for its acceptance of a Soviet role in the peace negotiations.

The Soviet Union, however, has made it clear that it will not put the final seal on renewed relations until Israel has given its final assent to attend a peace conference.

Moscow, which broke off ties during the 1967 Six Day War, has in recent years allowed the resumption of consular relations, but delayed the exchange of ambassadors.

Mr Shamir will not take kindly to any attempt to bounce him into acceptance of a conference by dramatic and clearly co-ordinated US-Soviet diplomatic theatre.

He is still insisting on approving the Palestinian delegates to talks before giving his go-ahead. But the presence at his door of both Mr Baker and Mr Pankin will test his boast that he is immune to pressure.

King Hussein of Jordan, meanwhile, firmly committed his country at the weekend to attend the peace conference, thus defying strong internal opposition to participation.

In an emotional speech in which he revealed that he had considered abdicating after reigning since 1952, the 55-year-old monarch said that Jordan's survival depended on its presence at the conference.

"We will participate to protect ourselves, rescue our country and people...and help the struggling Palestinian people," said the King, who has been under pressure from a coalition of Islamic and leftist groups to boycott the meeting.

Speaking on the eve of Mr Baker's return to the region, the King said he had been assured by Washington that negotiations on a transitional period of Palestinian self-rule in the Israeli occupied territories would begin within a year of the conference opening.

"This means that it is not improbable for us to witness, within one year of the commencement of negotiations, the beginning of the termination of Israeli occupation," he said in a speech broadcast to the nation.

In Tunis, Mr Yassir Arafat, the Palestine Liberation Organisation leader, yesterday bitterly accused the US of hostility to the Palestinians and of outright favouritism towards Israel in preparations for the peace conference.

Mr Arafat's criticism reflects PLO fears of being marginalised in efforts to convene the peace conference.

Mr Baker, who began his latest Middle East mission in Cairo yesterday, faces the difficult task of trying to reconcile Israel's fears of being drawn into a process whose outcome is uncertain, with the need to find a formula that would guarantee Palestinian participation under less than humiliating terms.

King Hussein at the weekend: Jordan's survival at stake

India switches line on foreign telecom investments

By **Hugo Dixon**

INDIA is to invite foreign companies to invest in its telecommunications industry. This is a sharp reversal from the previous policy of developing indigenous telecommunications equipment and licensing the switching technology of only one foreign company, Alcatel of France.

Mr Rajnesh Pilot, minister of communications, said he had discussed forming joint ventures with foreign companies such as AT&T of the US, Germany's Siemens, Sweden's Ericsson and NEC and Fujitsu, both of Japan, in talks at a Geneva trade fair.

Mr Pilot said: "India is open. India is a market which it is worthwhile entering." These comments contrast with his first public statements as telecommunications minister when he appeared to exclude the possibility of further competition in the market for switching equipment.

India is potentially a vast market for telecommunications equipment, with its 800m people sharing only 4.5m telephone lines – fewer than in London. Under the current five year plan, Mr Pilot said $15bn-$16bn would be invested to provide 11.5m new lines.

To finance part of the plan, India has approached the World Bank for a $1bn loan and has asked for further assistance from the Asian Development Bank. It is also looking to foreign suppliers to provide financing.

Given that India's foreign exchange reserves have sunk to a low level, the most difficult part of the programme would be to find hard currency, Mr Pilot said. Otherwise, much of the investment programme could be financed by internal resources because the telecommunications authority was profitable.

Mr Pilot said that the main consideration in choosing equipment suppliers would be the financial arrangements proposed and how fast they were prepared to transfer technology. He also said that foreign companies would be invited to take shares in mobile communications and data communications networks, although the country's main telephone network would not be privatised.

The minister revealed that India was planning to launch a series of domestic communications satellites, called Insat 2, for broadcasting, weather forecasts and telecommunications, from next year. Three or four satellites would be launched without a year between each.

Boost for Rao as Gandhi's widow stays out of politics

By **David Housego** in New Delhi

THE Congress government of Mr P.V. Narasimha Rao was much strengthened over the weekend by the announcement that Mrs Sonia Gandhi, Italian-born wife of the assassinated former prime minister, will not stand in a key by-election next month.

Senior Congress politicians believed that Mrs Gandhi's entry into politics would have split the Congress party by establishing two rival centres of power. The danger of renewed faction fighting in the party and the damage this could have done to the government's economic programme appear to have influenced her thinking.

Until she announced her decision through personal aides, there had been increasing signs that she intended to stand in the seat formerly held by her husband, Rajiv. Posters and campaign material were being prepared in the Amethi constituency in the northern state of Uttar Pradesh.

The enhanced prospects of political stability come amid better economic news, with a marked growth in the foreign exchange reserves and a modest pick-up in foreign investment. Changes among senior civil servants in the Finance Ministry are seen as bringing in a stronger economic team more committed to liberalisation.

Sonia Gandhi: fear of renewed faction fighting

NEWS IN BRIEF

Indonesia acts to curb foreign borrowing

By **Claire Bolderson** in Jakarta

INDONESIA has postponed several big investment projects in order to curb foreign borrowing.

The decision comes amid increasing concern about Indonesia's economy. The current account deficit is expected to widen from $4.2bn in 1990 to around $6bn this year, a tight money policy has pushed up interest rates but so far failed to curb inflation and there are worries too about Indonesia's $60bn foreign debt and its inadequate infrastructure.

Some of the delayed projects are associated with politically influential Indonesian businessmen. Observers say the announcement of their postponement is likely to go some way towards restoring confidence in the government's willingness to tackle economic problems despite political sensitivities. Four big projects, together worth more than $9bn, are to be rescheduled. They are the Arun aromatics plant in northern Sumatra, the Exor IV refinery in Riau province, a Central Java residual catalytic cracking unit and a big olefins complex in West Java.

French to lay fibre optic link from Marseilles to Singapore

A consortium of telecommunications equipment companies led by Alcatel of France is to build a $660m undersea fibre-optic cable, half round the world from Singapore to Marseilles, writes William Dawkins in Paris.

The group includes STC of Britain and AT&T of the US, and will open a high capacity telecommunications link from Singapore to Jakarta by the mid-1993, with the rest to come into operation a year later. The contract is for 18,000km of cable, under the Indian Ocean, the Red Sea and the Mediterranean, with a capacity of 560 megabits per second. Alcatel, which is supplying just over half the cable, said yesterday it had signed the deal with all but two of the 50 countries ordering the link, and that the final signatures should come shortly.

Spanish take step towards telecom liberalisation

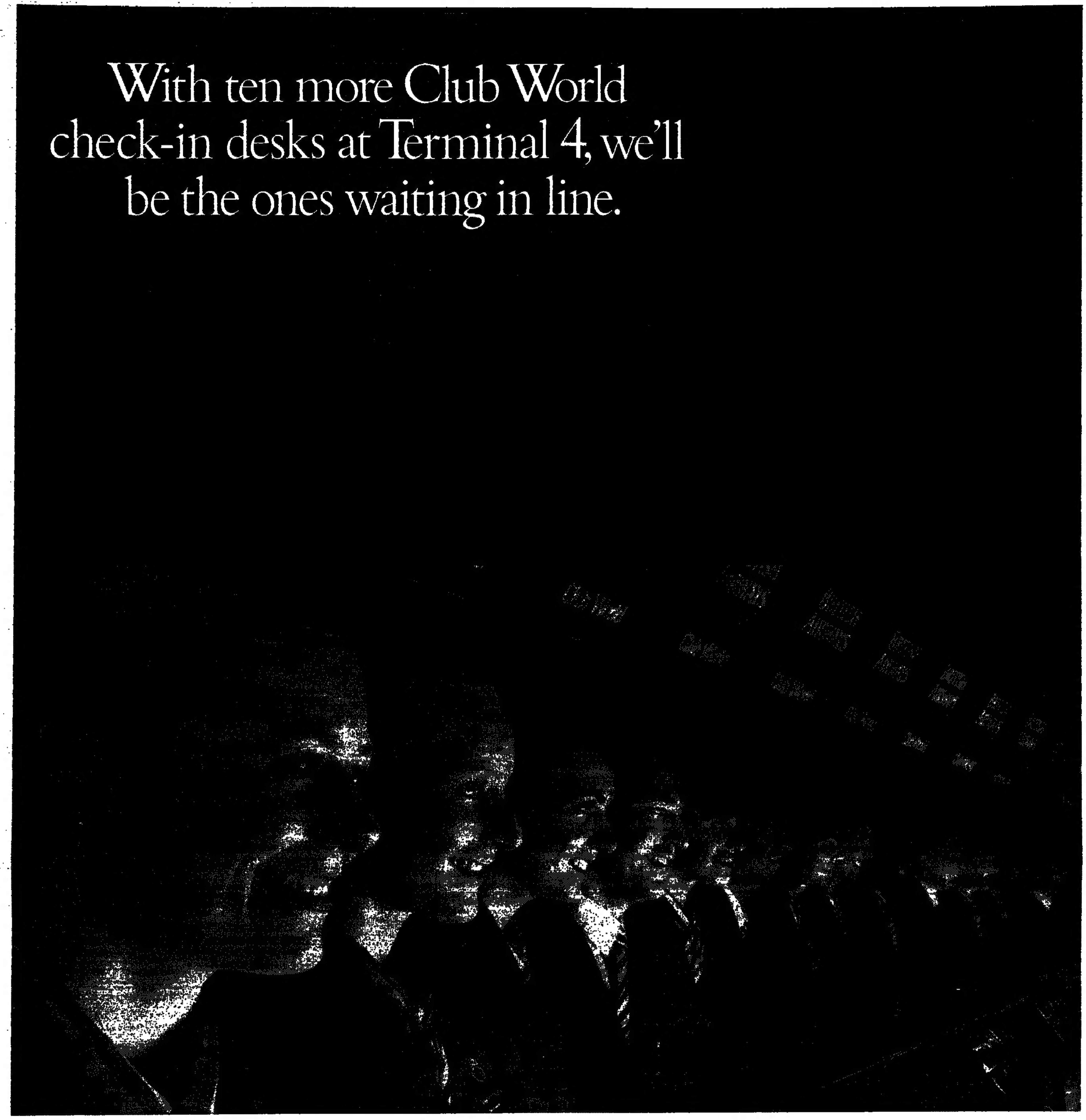
Spain is to lift restrictions on the use of private data transmission and mobile telephone networks bringing it into line with telecommunications deregulation in the rest of the European Community, writes Peter Bruce in Madrid.

The decision leaves the state-controlled telephone operating company, Telefoncia, holding a monopoly only over the basic telephone voice, telex and telegram services. The government warned, however, that competition in mobile communications would have to be limited as the network was small. Telefonica is also withdrawing from its equipment manufacturing operations in order to concentrate on operating services at home and in Latin America.

Troops called in as 10 die in ethnic clash in Pakistan

Paramilitary troops were called in to Pakistan's south-western city of Quetta, capital of Baluchistan province, over the weekend after the authorities imposed a curfew, writes Farhan Bokhari in Lahore, Pakistan.

The move came after at least 10 people were killed in violence between members of the Pathan and Baluchi communities.


With ten more Club World
check-in desks at Terminal 4, we'll
be the ones waiting in line.

Thailand struggles to cope with Aids

By Stephen Fidler in Bangkok

IMF WORLD BANK

After years of denying that Thailand had an Aids problem, the government has launched an aggressive campaign against the spread of the disease.

The statistics are alarming. In the north of Thailand, 7 per cent of 20-21 year old conscripts into the army tested HIV-positive. Twenty-four per cent of brothel prostitutes in Bangkok are also said to carry the virus.

The government sees devastating consequences for the Thai economy if nothing is done. By the year 2000, one in three people dying in Thailand would die from Aids, 160,000 people a year. Some 2m-4m Thais would be infected.

Not only would this impose heavy direct health care costs on the economy, there would be a huge loss of prime wage earners - and big indirect costs: a loss of tourism earnings (now $5bn a year), foreign direct investment ($2bn) and remittances from abroad ($1bn) as other countries refuse to take Thai workers.

The man charged with making sure this does not happen, Mr Mechai Viravaidhya, was handing out condoms over the weekend at the Bangkok meeting of the International Monetary Fund and World Bank. (They were in key rings, not for use.) The meetings have brought an estimated 10,000 government officials, bankers and journalists to the city.

Mr Mechai, a minister in the office of Thailand's prime minister, is an adept publicist and extraordinarily frank. He is known as Mr Condom.

This frankness is part of a plan aiming to make every Thai aware of the dangers, and to make sex "a pleasure of last resort" among the normally promiscuous Thais.

It will soon be difficult to switch on Thai TV or radio without hearing a message on the subject. The private sector has been recruited: bank teller machines and petrol stations will carry anti-Aids messages.

France leads clamour over Vietnam aid

A GROUP of western industrialised countries, headed by France, is attempting to help Vietnam qualify for financial aid from the IMF in the face of strong US opposition, writes Peter Norman.

A meeting will be held on Wednesday to try to assemble a financial package allowing Vietnam to pay off its $140m (£81.3m) arrears with the Fund and so qualify for IMF loans.

US Treasury secretary maintains overall growth of output and trade is inadequate

Brady warns of weak global economy

By Peter Norman, Economics Correspondent, in Bangkok

MR Nicholas Brady, US Treasury secretary, said yesterday the global economy was characterised by "widespread weaknesses, including inadequate overall growth of output and trade".

Addressing the policy-making interim committee of the International Monetary Fund, Mr Brady said the US appeared to be recovering after contraction during three quarters. However, he said the other leading economies in recession, which include Britain, were sending "mixed signals". Recent US forecasts and those of the IMF staff had erred on the side of optimism, he warned.

Underlining that the global economic environment currently displayed "inadequate growth, high unemployment and unused capacity", Mr Brady said: "We are forgoing trade and investment at a time when the world arguably needs them most."

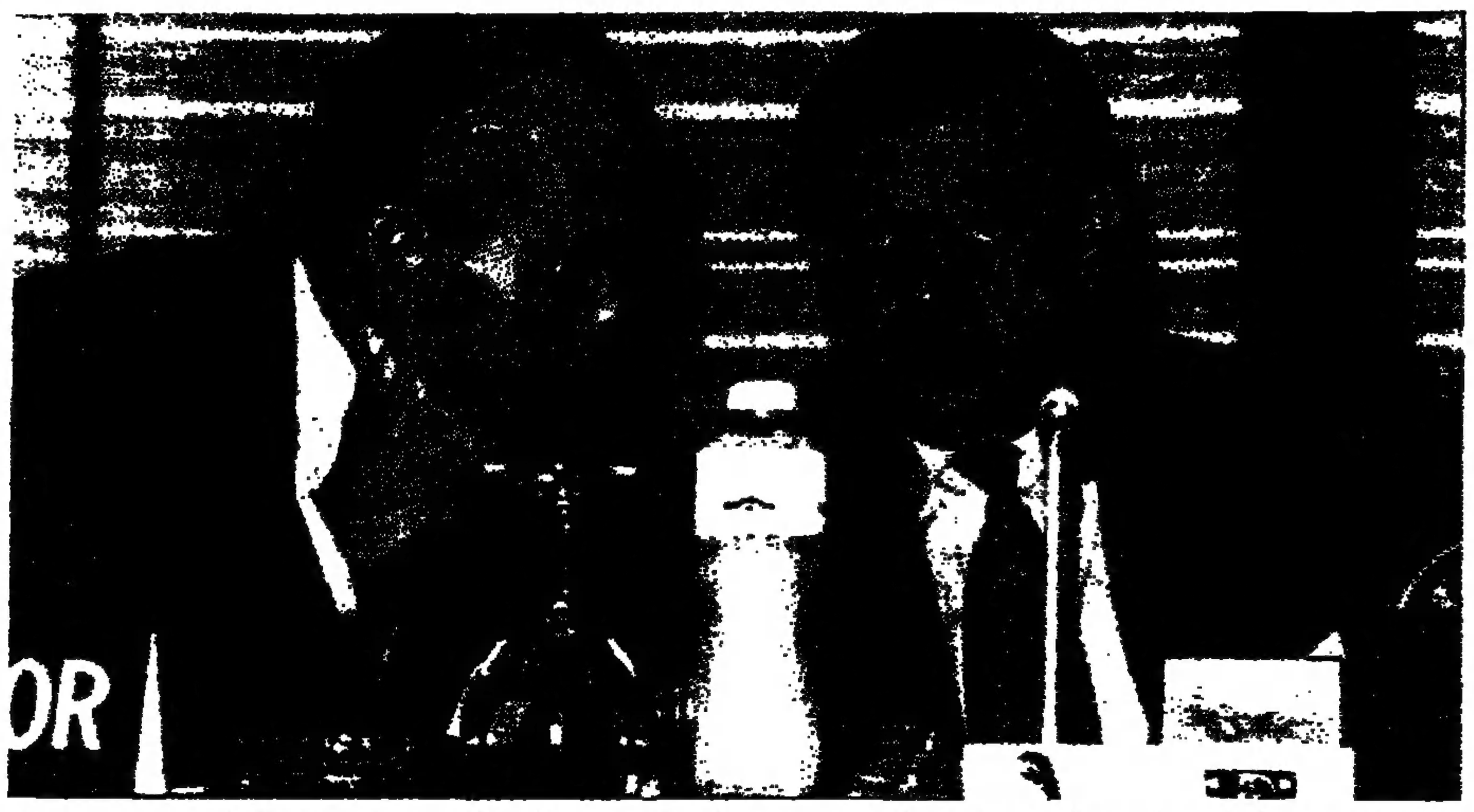
He said the shared priority of nations should be to return "as rapidly as we can to a path of solid, durable growth". Fiscal and monetary policies should be directed to achieving sustained medium term growth with price stability and lower real interest rates.

Mr Norman Lamont, the British chancellor, was significantly more bullish than Mr Brady about the UK economy.

He maintained there was growing evidence that Britain was emerging from the recession. In remarks prepared for the interim committee, the chancellor said the UK's cautious and prudent approach to monetary and fiscal policy was "beginning to pay dividends".

However, he admitted unemployment would continue to rise "for a while" after a recovery in output had begun. Growth in the UK would be moderate at first, but he shared the view expressed last week by the IMF that this would accelerate in 1992.

"Britain is well placed to contribute to and to benefit from the upturn in the world economy," he said.



Money matters: Michel Camdessus (left), IMF managing director, consults Carlos Solchaga, Spanish finance minister, before a meeting of the Fund's interim committee in Bangkok yesterday

CONFERENCE DIARY

Soviet gold loses some of its glister

By Stephen Fidler

One of the great mysteries of the IMF-World Bank meeting is the state of the Soviet Union's gold reserves. Mr Grigory Yavlinksy, the chief Soviet representative here, has told the G7 that the Ministry of Finance has 240 tonnes (current market value, roughly $2.5bn). There are also unconfirmed suggestions that the Soviet State Bank has another 370 tonnes, while already pledged as collateral for loans is a further 110 tonnes.

Before this, most estimates have suggested Soviet gold reserves of 2,000 tonnes or more. So are the figures to be believed, have Soviet coffers been pillaged, or have they been cleverly selling over the last decade or so 100 tonnes a year that nobody has detected? Soviet gold reserves were always one of the communists' most jealously guarded secrets. Coming clean on the issue is regarded by industrialised countries as an acid test of a true Soviet commitment to open government.

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The crisis in the Soviet Union is resulting in a busy retirement for one of Europe's most distinguished former central bankers.

Mr Michel Camdessus, the IMF's managing director, has appointed Baron Jean Godeaux, the former head of the Belgian National Bank, to act as a high-level co-ordinator of efforts to assist the Soviet Union in monetary and central bank reform.

With the rank of general counsel of the IMF, Baron Godeaux will liaise with the Soviet monetary authorities and pull together the technical assistance being given to the Soviet Union by foreign central banks.

The 69-year-old Baron Godeaux is just one of several Francophone officials who will be helping Mr Camdessus, himself a Frenchman, with the Soviet Union.

Mr Jean Foglizzo, a French economist, will be the IMF's man in Moscow. Mr Jean Ripert, a former general manager of the French Institute of Statistics, takes on the Herculean task of overseeing efforts to bring Soviet statistics up to western standards.

Once again the French have shown their ability to put prominent people in high-profile international monetary jobs. But helping the Soviet Union is not entirely a French show. Mr John Odling-Smee, who left the UK Treasury for the IMF earlier this year, is playing a big part in the programme to reform the Soviet economy.

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Delegates to the conference were presented on arrival at Bangkok airport with a Thailand Health Guide, which made rather alarming reading for some of the more sensitive of the expected 10,000 visitors. The booklet concentrates on the country's health risks: malaria (not a problem in Bangkok, but in the north), typhoid, dengue fever, road accidents (the number one danger in Thailand), Aids, traveller's diarrhoea, skin conditions and emotional depression.

The news is not so good either for pet lovers. Three out of five of the dogs caught randomly in the streets of Bangkok "are found to be infected and/or incubating" rabies.

□ □ □ □

The meetings have seen a media frenzy probably unprecedented for these normally rather sedate affairs. The presence of large numbers of television crews is making the business of moving from one part of the conference centre to another increasingly difficult for ministers, particularly those of the G7 industrial countries.

The Secret Service team attached to Mr Nicholas Brady, the US treasury secretary, have been getting increasingly agitated by the swarm that accompanies him wherever he goes. Aides say he has twice narrowly missed being seriously injured in the scrum. Most attention, however, seems to be devoted to Mr Ryutaro Hashimoto, the outgoing Japanese finance minister.

Bank gives priority to protecting environment

By John Hunt, Environment Correspondent

WORLD BANK lending for environmental purposes has increased nearly fourfold over the past year – from £235m to £930m – reflecting growing international concern.

The figures are contained in the bank's "green" progress report for the year ended June, which is published today. It shows the bank is becoming more involved in environmental protection, and provision of funds is increasingly tied to programmes which will not damage the environment.

Over the past year nearly half the projects supported by the bank – a total of 113 – had a full or partial assessment of their environmental impact before a decision was made to lend funds.

The report sees a free market as a precondition for a cleaner world. It says the environmental devastation in eastern Europe demonstrates that market liberalisation is necessary for sound environmental management. "If prices do not reflect real costs there is no incentive to use resources efficiently and thus avoid waste."

The bank emphasises it will be particularly tough in vetting proposals that could damage the rainforest, an area where it has been under strong pressure from environmental groups.

It says commercial logging in primary rainforests will not be financed under any circumstances. Financing of projects such as dams, roads and mines which could lead to loss of rainforest will face rigorous assessment.

Governments will be expected to make a commitment to conserving forests before lending is approved.

The bank also stresses the need to curb steep population growth. "High fertility rates present a major obstacle to sound environmental management," it says.

"There is widespread agreement that population growth must be curbed if economic development is to be sustainable."

Yen rise urged to curb Japan's trade surplus

By Peter Norman and Stephen Fidler

THE WORLD'S leading industrial countries have agreed that the Japanese yen should rise in value to prevent a renewed increase in Japan's trade surpluses, Mr Pierre Bérégovoy, the French finance minister, said yesterday.

Speaking after a weekend meeting of finance ministers from the Group of Seven leading industrial countries, Mr David Mulford, the US Treasury under-secretary for international affairs, said the Japanese surplus had shown signs of growing again, particularly with Europe. He said there was some concern among the ministers that the surplus might increase as the US economy gathered strength.

A communiqué said the G7 ministers noted that Japan's balance of payments current account surplus had declined in recent years and should be prevented from increasing again.

But the statement gave only the vaguest indication that the ministers wanted a stronger yen, which has been rising on foreign exchange markets recently. It said the ministers "concluded that recent exchange market developments were broadly in line with continued adjustment of external imbalances" and reaffirmed a long standing G7 commitment "to co-operate closely on exchange markets".

"I think it would be desirable if the yen were to rise somewhat," Mr Bérégovoy told a press meeting yesterday. "If you don't find that particular language in the comuniqué it is because Mr [Ryutaro] Hashimoto [the Japanese finance minister] didn't want to see it there," he said.

Mr Bérégovoy indicated that there was consensus among the G7 on the issue.

According to the International Monetary Fund's World Economic Outlook, Japan's current account surplus fell last year to $35.8bn from $57.2bn (£33.2bn) in 1989 and a recent high of $87bn in 1987. But it projects an increase to $62.7bn this year and $59.4bn in 1992.

The ministers reaffirmed their support for economic policy co-ordination among the G7. But the communiqué made clear that they had abandoned any ambition to set interest rates in concert.

The communiqué issued on Saturday papered over several areas of tension among the seven. It failed to mention the unresolved issue of ensuring that each country carried a fair share of the burden of helping eastern Europe and the Soviet Union. This was a matter for "on-going discussion", Mr Hashimoto said.

Although the communiqué acknowledged the need for greater assistance from industrialised countries for the poorest, heavily indebted nations, US budgetary problems meant ministers were unable to agree support of specific measures such as British proposals to cut the official debt of these countries by two-thirds.

Mr Norman Lamont, the chancellor of the exchequer, said the failure to make progress on the so-called Trinidad Terms was "slightly disappointing". The problem, he said, was an argument between the US administration and Congress over how the debt write-off would be treated as an item of expenditure in the US budget.

The G7 ministers discussed the much-feared shortage of global savings in the light of high investment requirements. They agreed that countries with high budget deficits should implement measures already agreed to reduce them, emphasised the need for all countries to curb unproductive expenditure and said it was important to remove obstacles to private savings.

During their meeting, ministers reviewed recent scandals in financial markets, including events in Japan that led to Mr Hashimoto's decision to resign after the IMF and World Bank annual meetings.

Ministers said measures were needed to prevent their recurrence.

G24 countries caution on arms spending conditions

DEVELOPING countries of the Group of 24 cautioned at the weekend against new conditions linked to their military spending being imposed on their borrowings from the IMF and World Bank, write Stephen Fidler and Peter Norman.

They rejected a suggestion by Colombia, which currently heads the group, for a "rationalisation" of military spending in rich and poor countries. Prominent members of the group, in which eight countries are represented each from Asia, Latin America and Africa, are afraid that new conditions will be imposed on them following the end of the cold war.

Their post-meeting statement said the IMF and World Bank should not become involved "in issues beyond their strict economic and financial mandate".

The G24 also called on the rich countries to reverse their growing protectionist tendencies.

INTERNATIONAL ECONOMIC INDICATORS: NATIONAL ACCOUNTS

Figures for GNP/GDP are in billions of European currency units (Ecu). The first breakdown is in current prices and the second shows growth rates in the constant price series.

UNITED STATES

CURRENT PRICES	Gross National Product	Private Cons. (as a % of GNP)	Private Invest. (as a % of GNP)	Govt. Spend. (as a % of GNP)	Net Exports (as a % of GNP)
1984	4,780.6	64.4	17.6	19.5	−1.6
1985	5,266.8	65.5	16.0	20.4	−1.9
1986	4,302.3	66.1	15.6	20.6	−2.3
1987	3,912.7	66.6	15.5	20.4	−2.5
1988	4,118.6	66.4	15.3	19.7	−1.5
1989	4,720.7	66.3	14.8	19.7	−0.9
1990	4,288.0	66.9	13.6	20.1	−0.6
3rd qtr.1990	4,245.2	67.0	13.8	20.0	−0.8
4th qtr.1990	4,030.3	67.4	12.6	20.5	−0.5
1st qtr.1991	4,136.8	67.3	11.9	20.5	0.2
2nd qtr.1991	4,736.5	67.5	11.7	20.5	0.3

CONSTANT PRICES (% growth in)	GNP	Cons.	Invest.	Govt.	Exports
1984	6.8	4.8	30.6	4.4	6.8
1985	3.4	4.7	−3.3	7.9	2.3
1986	2.7	3.9	0.4	4.2	4.4
1987	3.4	2.8	4.6	2.3	13.8
1988	4.5	3.6	5.5	0.2	18.3
1989	2.5	1.9	1.6	2.3	11.0
1990	1.0	0.9	−3.9	2.8	6.4
3rd qtr.1990	1.0	0.8	−3.5	3.3	6.4
4th qtr.1990	0.5	0.1	−7.4	3.8	5.8
1st qtr.1991	−0.6	−0.5	−11.0	2.7	3.2
2nd qtr.1991	−0.9	0.1	−11.9	1.6	5.6

JAPAN

CURRENT PRICES	Gross National Product	Private Cons. (as a % of GNP)	Total Invest. (as a % of GNP)	Govt. Cons. (as a % of GNP)	Net Exports (as a % of GNP)
1984	1,608.6	59.4	28.0	9.8	2.9
1985	1,780.1	58.7	28.0	9.5	3.7
1986	2,033.6	58.3	27.7	9.6	4.3
1987	2,102.0	58.4	28.4	9.4	3.8
1988	2,465.7	57.6	30.4	9.1	2.9
1989	2,622.0	57.3	31.5	9.1	2.1
1990	2,330.8	56.7	33.0	8.9	1.4
3rd qtr.1990	2,287.8	56.7	33.5	8.8	1.0
4th qtr.1990	2,446.6	56.2	33.5	9.1	1.2
1st qtr.1991	2,520.3	55.7	32.9	8.8	2.6
2nd qtr.1991	2,784.3	56.2	32.7	8.8	2.3

CONSTANT PRICES (% growth in)	GNP	Cons.	Invest.	Govt.	Exports
1984	4.3	2.8	5.6	2.7	14.8
1985	5.1	3.3	6.5	1.7	6.5
1986	2.7	3.4	4.3	4.5	−5.3
1987	4.3	4.2	8.2	0.4	4.6
1988	6.3	5.2	14.2	2.2	10.7
1989	4.7	4.3	9.1	2.1	15.0
1990	5.7	4.1	10.2	1.4	10.8
3rd qtr.1990	5.5	4.1	11.4	1.5	5.9
4th qtr.1990	4.8	1.8	9.4	1.6	6.2
1st qtr.1991	5.9	2.5	9.2	1.8	5.4
2nd qtr.1991	5.0	2.7	4.5	3.3	1.9

GERMANY

CURRENT PRICES	Gross National Product	Private Cons. (as a % of GNP)	Total Invest. (as a % of GNP)	Govt. Cons. (as a % of GNP)	Net Exports (as a % of GNP)
1984	786.9	56.8	20.1	19.9	3.2
1985	825.5	56.4	19.5	19.9	4.1
1986	911.2	55.0	19.5	19.7	5.7
1987	967.7	55.3	19.2	19.8	5.6
1988	1,015.8	54.7	20.0	19.6	5.8
1989	1,085.2	54.0	20.9	18.7	6.4
1990	1,182.7	53.5	21.9	18.2	6.4
3rd qtr.1990	1,192.5	53.2	21.4	18.2	7.1
4th qtr.1990	1,207.8	53.4	22.9	17.8	6.2
1st qtr.1991	1,251.4	52.7	22.6	17.5	7.2
2nd qtr.1991	1,271.6	52.6	23.2	18.1	6.1

CONSTANT PRICES (% growth in)	GNP	Cons.	Invest.	Govt.	Exports
1984	3.0	1.5	2.2	2.5	9.0
1985	2.1	1.5	−0.7	2.0	7.6
1986	2.2	3.5	3.9	2.5	−0.1
1987	1.4	3.3	1.2	1.5	0.6
1988	3.5	2.5	7.5	2.2	5.6
1989	3.8	2.0	8.5	−1.6	11.7
1990	4.7	4.5	9.8	2.1	10.4
3rd qtr.1990	5.5	5.6	9.6	3.1	11.7
4th qtr.1990	5.3	3.8	9.1	0.4	16.4
1st qtr.1991	5.2	4.0	11.6	−0.4	16.2
2nd qtr.1991	4.3	3.5	8.9	−0.4	15.8

FRANCE

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Total Invest. (as a % of GDP)	Govt. Cons. (as a % of GDP)	Net Exports (as a % of GDP)
1984	634.8	60.5	19.0	19.9	0.7
1985	691.8	60.8	18.9	19.6	0.7
1986	746.1	60.2	19.6	19.2	1.0
1987	770.4	60.6	20.2	19.1	0.1
1988	813.5	60.0	21.2	18.8	0.1
1989	874.5	59.7	21.9	18.3	0.2
1990	936.6	60.0	21.7	18.3	−0.0
3rd qtr.1990	941.3	59.9	22.4	18.3	−0.6
4th qtr.1990	945.9	60.3	21.4	18.4	−0.2
1st qtr.1991	948.3	60.3	21.6	18.5	−0.4
2nd qtr.1991					

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1984	1.3	1.1	−2.5	1.1	7.0
1985	1.9	2.4	2.8	2.3	1.9
1986	2.5	3.9	8.8	1.7	−1.4
1987	2.3	2.9	5.1	2.8	3.1
1988	4.2	3.4	8.7	2.9	8.1
1989	3.9	3.2	7.3	0.2	10.3
1990	2.8	3.1	3.3	3.1	5.2
3rd qtr.1990	3.0	2.5	8.9	3.3	5.5
4th qtr.1990	1.9	2.7	−0.8	3.2	3.5
1st qtr.1991	0.8	1.6	3.1	2.5	−0.9
2nd qtr.1991	1.6	1.2	−0.8	3.1	5.0

ITALY

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Total Invest. (as a % of GDP)	Govt. Cons. (as a % of GDP)	Net Exports (as a % of GDP)
1984	526.4	62.3	23.0	16.5	−1.8
1985	563.3	62.7	22.5	16.7	−1.9
1986	613.9	62.4	20.7	16.5	0.4
1987	655.0	62.5	20.7	17.0	−0.3
1988	704.7	61.9	21.4	17.3	−0.6
1989	787.2	62.0	21.6	17.0	−0.7
1990	854.6	64.3		17.0	−0.5
3rd qtr.1990	851.2	62.4	21.1	16.9	−0.5
4th qtr.1990	878.0	70.3	13.6	16.8	−0.7
1st qtr.1991					
2nd qtr.1991					

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1984	3.0	2.1	10.1	2.5	7.3
1985	2.6	3.1	1.5	3.5	3.9
1986	2.5	3.8	−0.2	2.9	3.8
1987	3.0	4.2	6.7	3.7	3.3
1988	4.2	4.1	7.8	2.8	4.8
1989	3.2	3.8	4.0	0.5	10.1
1990	1.9				
3rd qtr.1990	1.8	2.6	4.5	1.5	2.7
4th qtr.1990	1.2				
1st qtr.1991	0.7				
2nd qtr.1991	1.4				

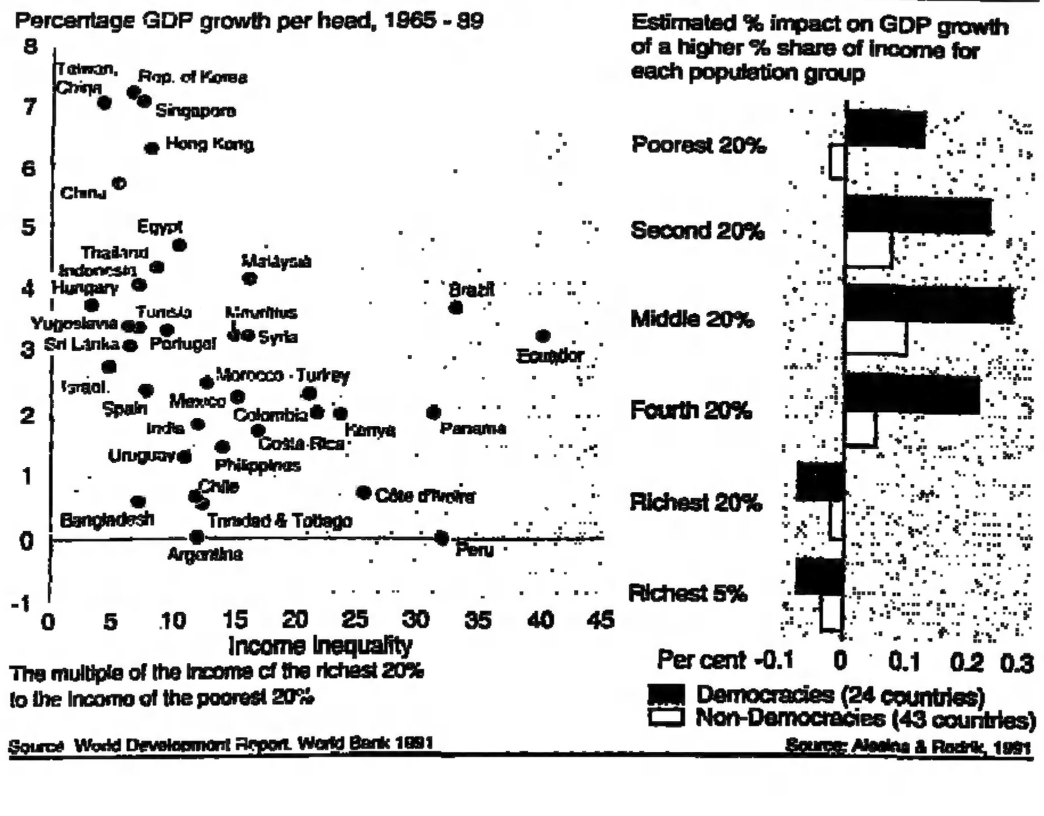
UNITED KINGDOM

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Total Invest. (as a % of GDP)	Govt. Cons. (as a % of GDP)	Net Exports (as a % of GDP)
1984	549.6	61.4	17.3	21.5	−0.2
1985	604.3	61.1	17.2	20.7	0.9
1986	571.1	63.0	17.0	20.7	−0.7
1987	597.2	62.9	17.9	20.3	−1.1
1988	703.3	63.9	20.1	19.6	−3.6
1989	758.9	63.9	20.6	19.4	−3.9
1990	769.2	63.5	19.0	19.9	−2.4
3rd qtr.1990	796.2	63.3	18.7	20.1	−2.0
4th qtr.1990	788.5	63.9	17.2	20.3	−1.4
1st qtr.1991	790.6	64.3	16.2	20.9	−1.4
2nd qtr.1991	823.4	64.4	14.6	21.4	−0.4

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1984	1.6	1.6	7.8	0.9	6.5
1985	3.7	3.5	3.5	0.0	5.9
1986	4.0	6.2	2.2	1.8	4.7
1987	4.6	5.2	10.2	1.2	5.6
1988	4.2	7.4	17.1	0.6	0.1
1989	2.3	3.5	4.7	0.9	4.2
1990	0.9	1.0	−6.3	2.8	4.6
3rd qtr.1990	0.4	1.0	−7.9	1.7	2.6
4th qtr.1990	−1.2	−0.4	−7.7	2.2	1.2
1st qtr.1991	−2.3	−0.7	−17.8	2.9	−1.9
2nd qtr.1991	−3.6	−1.7	−23.6	2.5	−0.0

Seasonally adjusted data used in all cases. Statistics for Germany apply only to western Germany. GNP/GDP is broken down into private consumption expenditure, investment (the sum of gross fixed capital formation and the change in stocks), general government final consumption, and net exports (exports of goods and services minus imports of goods and services). The US includes investment by government in the government series rather than under investment. Quarterly GNP/GDP totals are annualised. The growth rates are the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The figures in the fifth column of each set of growth rates refer only to exports, rather than to net exports. Data supplied by Datastream and WEFA from national government sources.

Income inequality and economic growth



Source: World Development Report, World Bank 1991; Source: Alesina & Rodrik, 1991

The economic case for greater income equality

SWEDEN'S poor economic performance in recent years and the consequent demise of its Social Democratic party have dealt a double blow to the social democratic notion that economic growth and efficiency are compatible with a high degree of redistributive taxation and income equality.

The Swedish experience does suggest a conflict between government redistributive policies and the incentives for private individuals to work, save and provide funds for investment and growth.

Sweden certainly has an exceptionally equal society. The richest 20 per cent of the population retains 24 per cent of total post-tax income, compared to 32 per cent in the US, 31 per cent in the UK and 36 per cent in Germany.

It also has an unusually slow-growing economy, advancing more slowly than the average economic growth rate of the European members of the OECD in 13 of the last 20 years.

Not surprisingly, the traditional Swedish mixture of collectivism, high taxation and a highly developed welfare state is blamed for this poor record. Sweden's new non-socialist government plans to remedy it through deregulation, privatisation and tax cuts.

Yet one country's experience can neither prove nor disprove a rule. "In fact," the World Bank concludes in this year's World Development Report, "there is no evidence that saving is positively related to income equality or that income inequality leads to higher growth."

If anything, there appears to be a slightly negative relationship between inequality and growth. The left-hand chart plots, for a number of developing and newly developed countries, the relationship between the rate of growth of GDP per head and a standard measure of the degree of income inequality. The fastest growing economies – Singapore, Korea and Hong Kong – all have comparatively equal income distribution.

Yet the relationship is weak and there are many exceptions. This should not be a surprise, say Mr Alberto Alesina and Mr Dani Rodrik, economists at the US National Bureau of Economic Research, because the comparison fails to take into account the effects of different political systems and incentives.

The important distinction is between democracies and non-democracies.

Mr Alesina and Mr Rodrik have estimated the relationship between the average growth rate of GDP per head between 1965 and 1985 and the initial concentration of income across 66 countries. Among the sample they find little relationship between economic growth and the level of income inequality.

For the 44 non-democracies the relationship is weak and unstable. But among the 24 democracies, those countries with higher growth rates tend also to have a more equal income distribution, one in which a higher share of total income is held by the poorest and middle-income groups.

On average, they find, a reduction of 10 per cent in the income share of the richest 20 per cent would raise the annual growth rate by about 0.3 per cent.

Why does more equality produce more growth in democratic economies? Perhaps countries with such systems are more likely to be developed, richer and thus in a position to pursue redistributive goals or to compensate losers.

Mr Alesina and Mr Rodrik argue that it is the nature of the democratic process itself that makes the difference. The more a small minority holds income and wealth in a democratic society, the greater the incentive for the majority to vote for high taxes on the rich and on capital owners, thereby dampening incentives for savings and investment.

Whatever the reason, the rule seems to be that more equal democracies grow faster.

It is a rule to which Sweden is a clear exception. Yet this may not be so surprising. Sweden's tax revenue as a share of gross domestic product – at 57.7 per cent in 1990 – was 18 percentage points higher than the average for OECD Europe. Perhaps you can have too much of a good thing.

Edward Balls

A. Alesina & D. Rodrik: "Distributive Politics and Economic Growth," Centre for Economic Policy Research discussion paper No 565, 1991.

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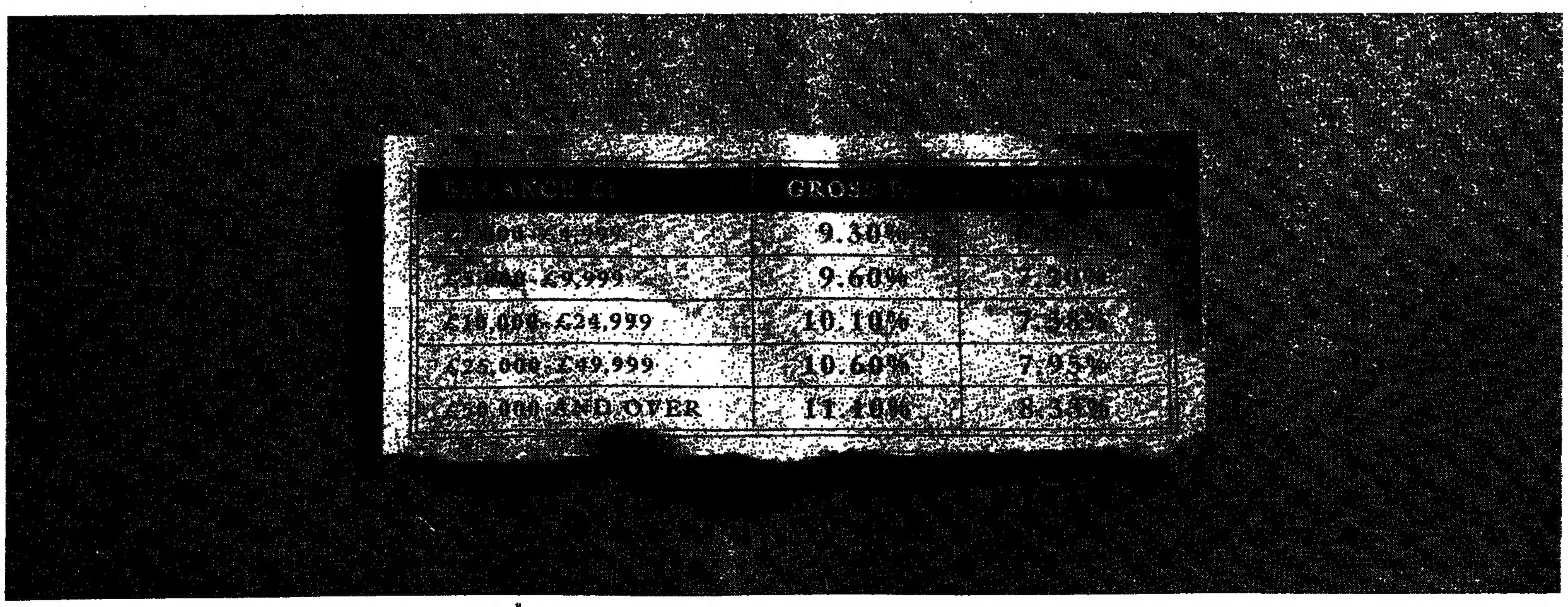

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French telecoms challenge to BT's global network

By Hugo Dixon

BT is facing a growing challenge from other telecommunications groups to its plans to become the leading European based international telecommunications operator.

The opposition has prevented BT from cementing a global alliance with Nippon Telegraph and Telephone and Deutsche Telekom to provide worldwide services to multinational companies.

The joint-venture, dubbed Syncordia, is central to BT's ambitions to offset growing competition in the UK by claiming a larger share of international markets.

Mr Marcel Roulet, chairman of France Telecom, the French state owned carrier, said that Europe's telecommunications companies should organise themselves so that BT's prediction that it would become the only truly global carrier in Europe would not come true.

France Telecom is the third large carrier which has been trying to break up the Syncordia alliance.

The two other main opponents of the plan, which have been attempting to woo away NTT and Deutsche Telekom, are American Telephone & Telegraph and MCI of the US.

Their combined efforts have succeeded in preventing Mr Iain Vallance, BT's chairman, from cementing the Syncordia partnership during talks last week in Geneva where executives from the industry were gathered for a large trade fair.

The doubts about the prospects for the Syncordia venture may cast a shadow over BT's international plans as it prepares for the sale of the remaining 45 per cent government owned stake in the company.

In a separate development Oftel, the UK telecommunications regulator has refused a request from the government's financial advisers to provide them with its projections for BT's financial performance. Oftel's refusal is a significant assertion of its independence from government.

Sir Bryan Carsberg, Oftel's director general, said his hands would not be tied by the sensitivity of plans for the sale of the stake in December.

And Sir Bryan confirmed that the company would be subject to a new regime of price controls from mid-1993.

POINTING the finger: Waldegrave turned on Labour's health claims

Pre-election campaign to widen as MPs return to Westminster

By Alison Smith

THE WAR of words over the future of the UK's national health service intensified yesterday, as the opposition Labour party renewed its accusations that the government would privatise the NHS, and the Tories claimed that the opposition's "lie" would rebound on Labour itself.

The issue has been the most bitterly-fought political battle in recent weeks, but as MPs return to parliament today, the relentless campaigning is set to focus on other areas such as economic performance. This parliament will be the last before a general election which Mr John Major, the prime minister, must call before July next year.

Labour has chosen the economy as the subject for a full day's debate on Wednesday, and the party will launch today a document attacking the Tories' record. In particular it will address the role Labour say Mr Major played in economic and health service decisions.

The Tories believe they will benefit from increasing signs of recovery. "I think the momentum of things getting better will increase next year," Mr Norman Lamont, the chancellor of the exchequer, said. "And I think that we will have accelerating growth next year, from a very modest increase."

In a speech to a party rally in Birmingham, Mr Neil Kinnock, the Labour leader, repeated claims that the government's changes to the health service were already "turning hospitals into trading units and doctors into treatment brokers".

Senior ministers say that the pledge by Mr John Major, the prime minister, that the service will not be privatised, has changed the atmosphere of the NHS debate. Mr William Waldegrave, the health secretary, said: "We have nailed the lie about privatisation and Mr Kinnock and his colleagues have an apology to make to the unfortunate people they have deliberately frightened."

An unapologetic Mr Robin Cook, Labour's health spokesman insisted that privatisation was one of three valid charges against the government on health: along with underfunding and the introduction of a market.

Reuters makes topical move in electronic share price market

Richard Waters on the desk-top terminal battle

COMPETITION in the £650m market for electronic share price information and company news in the UK is hotting up. Despite the profits squeeze in the securities industry, companies are queuing up to sell fancy terminals to fund managers, analysts and other intermediaries – and prices are coming down as a result.

The latest into the market is Reuters, the international news and information group, which today launches its own UK share information service. Like others, Reuters has one goal – to displace the London Stock Exchange's Topic terminals, more than 11,000 of which currently bring the UK's electronic stock market into offices throughout the country.

The appearance of Reuters, which has long had a strong grip on the supply of information in other financial markets, is likely to represent the fiercest challenge yet to Topic's near-total dominance of the domestic equity market.

Much of the information on its new service – UK Equity Focus – is already available through other company services, but by packaging it to appeal to existing Topic users and by pricing it aggressively, Reuters is signalling its long-expected assault on the UK share market.

The Stock Exchange says it is ready for the challenge. Mr Peter Hogarth, managing director of the Exchange's trading markets division, says: "The chances of them undermining the Topic customer base are very, very slight."

Equity Focus, like Topic 2, the exchange's year-old update to its original teletext service, is a personal computer based service. It combines share price quotes from the Exchange's SEAQ and SEAQ International systems, company news announcements from the exchange's RNS service, and Reuters' own company news.

Personal computer systems enable users to manipulate information for their own purposes, formatting their own pages or setting limits which alert them when a chosen share has reached a pre-determined price.

The growing competition is driving prices down. There is already heavy discounting, and Reuters' price for its news service – £150 a month, plus the £170-£260 a month cost of a terminal – is intended to undercut Topic, where charges range from £3,000 to £5,200 a year, depending on the version.

The Stock Exchange, meanwhile, is reviewing its own future in the information business. After the considerable upheaval of the past two years, it has decided not to sell Topic; but is considering joint ventures with other suppliers.

The ultimate goal – the next generation of interactive trading terminals, which will allow users to react to information that flashes up on their desktops. But according to Mr Hogarth, this remains a distant prospect for two reasons.

Firstly its is "fantastically expensive" and secondly, and perhaps more importantly, the UK's way of trading shares will probably have to change first. Most users of quote-driven markets prefer to negotiate directly with a market-maker rather than deal at the price quoted on a screen: it is usually possible to get a better price that way.

That makes automatic trading unappealing. Only in order-driven markets, where buyers and sellers enter their orders and matching takes place centrally, would people be likely to want to deal on screen. And the Stock Exchange has stuck rigidly to the orthodoxy adopted at the time of Big Bang – that London's will remain a quote-driven share market.

BRITAIN IN BRIEF

1m absent from work every day

British companies are complacent about monitoring and tackling staff absenteeism, according to a report by Arthur Anderson, the charted accountants, published today.

Britain is estimated to have one of the highest rates of absenteeism in the European Community: about one million employees are absent from work each working day, costing British industry around £6 billion a year.

Yet the report – based on a survey of 100 leading British companies – finds that more than 40 per cent of businesses do not measure absenteeism at all, while only 45 per cent operate absentee management information systems.

Managers get 10% average rise in 1991

UK managers are still on course for an average rise of over 10 per cent in total pay this year although the rate of increase has been slowing since January, according to the executive pay index produced by the Noble Lowndes management consultancy.

The index, calculated quarterly for the Financial Times, includes the value of fringe benefits such as company cars and pensions as well as salaries and cash bonuses.

The latest figures, based on a survey of 5,275 managers in 419 companies, show that rises slowed in the July-September quarter, reducing the annual rate of increase by one percentage point from the level prevailing in April-July.

On September 30 the average total pay across all types of executives was £74,647 – a 12.5 per cent rise over the 12 months since October 1 1990. That compares with a 13.5 per cent increase over the 12 months to July 31 1991.

The survey also shows that, besides edging down rises in money pay, employers are trimming fringe benefits. For example, company cars are being replaced with less expensive models, and private medical insurance is being limited to executives themselves rather than extended to their family.

IT mergers slacken

The pace of merger and acquisition activity in the UK information technology industry slackened appreciably in the first half of 1991 as the recession deepened.

The decline in activity is all the more noticeable because of the energetic rationalisation which has characterised the industry in recent years.

Software houses specialising in particular market sectors still command a premium price, however, compared with general computing services companies.

Figures from Regent Associates, which specialises in IT acquisitions show there were 122 deals in the first six months of 1991, a decline of 14 per cent compared to the 142 recorded in the same period last year.

The value of the acquisitions in 1991 totalled £1.6bn, a decline of 32 per cent compared with last year.

The average transaction value was £13.5m compared with £16.9m in 1990 and the average price multiple on after tax profits was 15.

Ford begins UK pay talks

Pay negotiations covering 29,000 UK manual workers at Ford begin today amid union expectations that, in spite of the deep recession affecting the industry, they will win rises in excess of inflation.

As well as pushing for a large pay increase, union leaders will be seeking improvements in the pension scheme, improved job security and a reduction in the 39-hour week. The demand on hours will be strongly resisted by Ford.

Ford settlements are traditionally among the most influential in the UK, setting a target which other workers then try to match.

Men get more job training

Young men are far more likely to receive job-related training than young women, according to a review of women's training published by the Equal Opportunities Commission.

The commission reported almost one in three men aged 16-19 in full-time employment say they had training recently, compared with only one in five young women in the same age group.

NHS reforms win support

Hospital managers support some central aspects of the government's health reforms but do not believe that they will solve the "fundamental problem" of underfunding.

An extremely high level of concern about funding is shown in a survey of hospital managers in the West Midlands published by the National Association of Health Authorities and Trusts today.

The survey finds that 90 per cent of managers support the separation of the purchasing of health care from its provision – the main organisational and financial change brought about by the reforms.

But exactly the same proportion say that the government's changes "will not solve the problem of underfunding in the NHS."

School bands face last post

The end of the school band may be in sight. The already acute shortage of music teachers is set to reach crisis proportions by the mid-1990s, throwing in doubt the ability of many state schools to offer any music classes.

Despite the recession, the rise in the number of graduate applications for teacher training this year was far less for music (10 per cent) than for any other national curriculum subject.

The education department estimates that, on current trends, the supply of music teachers in England will fall about a third short of demand by 1997 – a far wider gap than for any other national curriculum subject.

At a depressed time for the airline industry, the partners of Airbus must keep their nerve. **Paul Betts** meets the chairman

Realising the reality of a 20-year dream

Jean Pierson: "The Americans are still asking why the Europeans are building aircraft when they can sell perfume and wine"

Jean Pierson flew to the US the other day with one of his senior executives in a crowded American Airlines Boeing 767.

"The plane was full but we were told there were only two full fare-paying passengers: my colleague and yours truly," says the expansive chairman of Airbus Industrie as he puffs a Gauloise and sips a Pernod in the European aircraft consortium's comfortable dining room in Toulouse, south west France.

Pierson, whose gruff manner and imposing waistline has earned him the nickname of "the bear of the Pyrenees", does not mince his words. Tucking into some roast partridge, he remarks matter-of-factly: "Airlines have been more damaged by the Gulf war and the recession than anyone had ever expected. Six months ago I felt the crisis would be shorter. Airline yields are terrible. The problem is if airlines can't generate cash flow, the aircraft market will inevitably become blocked."

In their public pronouncements, Airbus and its US rival Boeing continue to remain optimistic about the long-term demand for new commercial aircraft. The European consortium is forecasting deliveries totalling 11,500 new aircraft worth about $700bn during the next 20 years, with Airbus accounting for at least 30 per cent of the market.

But Pierson is deeply worried by the immediate implications of the crisis engulfing the industry. "I see a big hole in new aircraft orders next year," he says, explaining that even so-called "strong" airlines such as American and Delta were deferring decisions on new aircraft orders.

Airlines are continuing to lose money and the banking community has lost confidence in civil aviation. Tensions have increased in the market with the US stepping up its attack on Airbus by taking the battle over government subsidies for the European consortium before the General Agreement on Tariffs and Trade. The four Airbus partners – British Aerospace (20 per cent), Aerospatiale of France (37.9 per cent), Deutsche Aerospace (37.9 per cent) and Casa of Spain (4.2 per cent) – are themselves under intense pressure, as the recent upheaval at BAe has underlined.

As far is Pierson is concerned, the consortium's management in Toulouse and its partner companies must keep their nerve in the current turbulent situation. "When you make a cake you don't want to burn it," he says. "It has taken us 20 years to arrive here. We are a European success story. The US is trying to halt our expansion because we are damaging their traditional industry leadership. They are still asking why the Europeans are building aircraft when they can sell perfumes and wine."

The crisis, however, has been salutary for Airbus and its partners, Pierson says. It has focused attention on collaboration, of which the Airbus chairman has always been an ardent proponent; he was production manager of the Anglo-French Concorde programme when he was only 27.

"Co-operation is the only way ahead. The industry's problems have forced the Airbus partners to come back to earth." During the past few months, tensions have surfaced between the partners because of their rival interests in the troubled regional and commuter airline market. While co-operating in the market to develop large airliners of more than 150 seats, the partners have been competing in the even tougher market for regional jets and turbo-propeller commuter aircraft of fewer than 100 seats.

Pierson believes this competition could have severe repercussions for Airbus, which is also seeking to extend its aircraft family by developing a smaller 120-seat derivative of its 150-seat A320 airliner. This derivative, known as the A319, would be a natural evolution of the Airbus aircraft range, he says. It would also enable the consortium to offer a new product to match its two US rivals, Boeing and McDonnell-Douglas, at the lower end of the airliner market.

Airbus is about to complete a feasibility study which would confirm that it could develop a 120-seat derivative of the A320 at a cost of about $300m. "In the current market, it would be madness to launch an all-new aircraft programme," Pierson says, implying that the four Airbus shareholders would be ill-advised to go ahead with their individual projects to launch new regional jet programmes.

The partners are now considering forging a new European alliance in the commuter and regional jet market, similar to the Airbus partnership in the large airliner market. "It would be no problem if a regional airline subsidiary was set up within the Airbus partnership. But it would have to be run as a separate business," Pierson says, adding that the most important issue is to ensure consensus among the partners.

The four partners' attitude towards Airbus has been changing significantly during the past year. Despite the recession, the partners, which are both shareholders and suppliers to Airbus, now regard the consortium as one of their most promising long-term assets. "Our partners and shareholders are finally beginning to realise they can make money out of Airbus," Pierson says.

Last year the consortium made an operating surplus of $130m for the first time in its 20-year history. Despite the crash in aircraft orders, it still has a five year backlog. "As long as we can rebuild one year's backlog each year, we remain in a healthy position," Pierson explains.

The challenge for Airbus is to pursue in the present difficult environment its transformation from a secretive partnership of four European aerospace groups into an integrated enterprise of its own operating along normal private company practices.

Pierson sees several stages in this evolution. The first, which is already happening, involves turning Airbus into a more efficient, more cost-oriented operation. Airbus recently financed the development of a new aircraft by turning to the financial markets for the first time. This involved the A321, the stretched derivative of the A320 twin jet airliner. Airbus has also established a financial services subsidiary based at Shannon in the Republic of Ireland, and launched the consortium's first international bond issue.

Another example of Airbus trying to manage its affairs along more cost-effective lines is its decision to tender for work on a competitive basis by asking its four partners to bid on fixed-priced contracts.

More significant, perhaps, has been the gradual shift in decision-making from the partners to Airbus itself in Toulouse. This shift is expected to accelerate as Airbus becomes an increasingly dominant and profitable component of the civil aircraft activities of its four partners, all now suffering from the decline of their core defence activities.

"There will be a move to create an integrated company organised like Boeing with its own industrial and labour structures," Pierson says. The next stage will be to open up Airbus to the public. But he could not say how long this process would take.

In the meantime, the consortium is facing a renewed attack from the US Trade Department and its aircraft manufacturers which accuse Airbus of distorting the market by benefiting from heavy government subsidies. "Rubbish," says Pierson. "The American manufacturers get more direct and indirect support from their government than we do."

If necessary, Airbus and its European partners will fight the US in the Gatt. "What we are looking for is a fair system whereby we get the same level of support as the US companies receive." But Pierson also warns that if a compromise is not found, "we will both be losers."

Tensions between Airbus and the US have been further enflamed by British Airways' decision to buy Boeing 777 wide-body aircraft powered with US-made General Electric engines rather than buying Airbus aircraft. The European consortium felt it was well placed to win its first significant order from BA.

The combative chairman has not entirely given up on the BA order. He has written this month to Sir Leon Brittan, the EC competition commissioner, asking him to look into the conditions of the Boeing sale to BA to see if there is a case for investigation on grounds of unfair competition.

The growing friction with the US reflects the European consortium's decision to challenge Boeing head-on in the jumbo airline market, up to now the sacred preserve of the US manufacturer. This month's roll-out in Toulouse of the new long-haul A340 airliner was a first step. Pierson says Airbus was considering developing a 600-seater jumbo if and when the market demanded one. Like Boeing, it is already discussing with airlines the design of such an aircraft. Depending on demand, Airbus could launch a jumbo programme in 1996 with the first aircraft flying in the year 2002.

Pierson also wants to extend the range of international co-operation at Airbus. He is looking both towards Tokyo and Moscow. He thinks the Japanese have ambitions to become a force in aerospace. "But we must clarify with them whether they want to be frank, honest partners with us or whether they simply want to use us as leverage to strengthen their negotiating hand with the Americans. The question is how far they are already locked in with the US."

The Soviet Union is an even bigger unknown. But Pierson believes there is a long-term opportunity for Airbus. "It's still virgin territory in terms of aerospace co-operation. It's a big market." He suggests that Airbus could be building aircraft in Russia one day. The German government called this month for Soviet involvement in future Airbus projects such as in the development of a 600-seater jumbo.

Since he is now 51 and his five-year mandate as chairman was renewed earlier this year, Pierson could still be around when that happens. But his immediate concern remains the precarious financial state of the airline industry. "My problem right now is the finances of the airlines. If they don't recover and restore confidence in the banking community, we and our American friends will all have a load more problems next year."

Pharmaceuticals

A prescription for staying competitive

By Andrew Baxter

Britain's pharmaceutical and fine chemical industry has an enviable – often unparalleled – record for product quality and innovation, but there is plenty of scope for improving manufacturing capability and making better use of employees' potential.

This is the verdict of a thought-provoking report by UK consultants World Class International and the British Production and Inventory Control Society, which says the industry must shed its complacency if it is to stay globally competitive. The report is the first benchmark survey of pharmaceutical and fine chemical manufacturing plants in the UK and Ireland.

It says the industry can no longer afford to rely just on the patenting of new products to maintain profitability and that effective and flexible manufacturing is now seen as a competitive weapon in the battle for global markets.

Because of the over-riding concern for new product development, manufacturing has been something of a poor relation in the pharmaceuticals industry. Don Ralston of World Class International says it normally represents about 20 per cent of total costs, but as long as it "avoids the need for product recalls, there are no worries.

"Thinking in the industry has, quite rightly, always been coloured by not letting bad products out of the door – which led to the code of Good Manufacturing Practice. GMP, however, does not dictate a need for long lead times, high inventories, long change-over times, high reject rates and process losses and indifferent customer service".

The result, says Ralston, is that the industry is probably five to eight years behind the computer and electronics sectors in its implementation of world class manufacturing techniques. "These industries felt the threat of Japanese competition in the late 1970s, and have since risen to the challenge."

The timing of the survey is significant. The European Community's single market reforms have already brought rationalisation of the number of pharmaceutical plants in Europe and for the first time, manufacturers have a benchmark against which to judge their own performance.

Similarly, if a company found itself with four UK plants after a merger when it needed only two, it would be in a better position to know how to rationalise. The report covers 25 plants from 20 companies, foreign and British-owned, in the UK and Ireland. Among its findings are:

- One of the reasons for poor manufacturing performance is the inability of the costing system to provide operational management with the information to manage. With standard costing systems, and their emphasis on direct labour, wrong signals are often sent to management – for example in the allocation of overheads and the justification of new equipment.
- Lead times are too long, both within the plant and from outside suppliers. These are often months for products that take only hours or days to produce.
- The level of late deliveries is often higher for items coming from other plants in the same organisation than it is from outside suppliers.
- Companies often spend millions of pounds on buildings and equipment, but little on communication, education and training. A cosmetics and toiletries plant that had 95 per cent of its employees involved in improvement teams had the lowest plant inventory among the factories surveyed.
- Only a few companies seem to have achieved a high degree of supplier development. Building a relationship with suppliers is difficult when some manufacturers have as many as 400, compared with the pared-down 30 to 40 in the electronics industry. The survey points out that a few plants are already well down the road on implementing improvement programmes, but there are no clear leaders.

Copies of the report are available from World Class International (0705 268133) or BPICS (0203 692266): Price £250.

APPOINTMENTS

British Gas personnel director

■ Mr Dennis Cottrell has been appointed group director of personnel at BRITISH GAS from November 1. He is currently operations director *British Gas West Midlands.*

In 1980 he returned to the West Midlands region as industrial relations manager and was appointed director of personnel in the north eastern region in 1985. He returned to West Midlands in 1988 as as director of personnel and in September 1990 was promoted to the post of regional operations director as part of the changes under the regional reorganisation review.

■ COATES LORILLEUX, the UK printing inks division of TOTAL, has named Mr Nick Thorne as managing director. He succeeds Mr Bob Simpson, who is taking responsibility for development of information systems in the Coates Lorilleux International group.

Mr Thorne was with Cadbury Schweppes as managing director of its Benelux soft drinks business.

■ *SPANDEX, distributor of* sign making computers and materials to the sign making industry, has appointed Mr Mark Godden to the board of directors. He was marketing manager.

■ Mr Alan Shelley will be retiring as senior partner of KNIGHT FRANK & RUTLEY in April 1991 at the end of the financial year. His successor, Mr Bill Yates *(pictured)*, joined the firm in 1964 and for 14 years until 1982 was responsible for international activities. Recently he has led the residential and agricultural division.

■ AMERICAN AIRLINES has appointed Mr David Scowsill as managing director European sales. He replaces Mr Fred Reid who has left the company. Mr Scowsill was previously general manager Europe with British Airways.

Mr Don Lane has become managing director of American Airlines Holidays. He was previously at American Airplan before joining Premier Holidays America as general manager.

■ EBOR HOLDINGS, Thirsk, has appointed Mr Tony Rae as deputy managing director and group finance director. Mr Derek Muirhead and Mr Andrew Dalton become managing director and deputy managing director respectively of Ebor Aluminium Systems, the group's main trading subsidiary.

■ Mr Jeremy Parrish has joined ANZ BANK as a director in the emerging markets group, specialising in Eastern and Central Europe. He was formerly executive director of ANZ Banking Group, Zurich, responsible for the securities and banking operations in Switzerland.

■ Mr Alan Hughes, managing director of Griffin Factors, has been elected chairman of the ASSOCIATION OF BRITISH FACTORS AND DISCOUNTERS.

■ CLUGSTON CONSTRUCTION has appointed Mr Barrie Stephens as director/general manager - civil engineering division.

■ Mr Jamie Buchanan has been appointed managing director of LE MASURIER JAMES & CHINN, a firm of stockbrokers based in Jersey, and a subsidiary of W.I. Carr Group - the UK and Far Eastern stockbroking arm of Banque Indosuez. He was *previously an executive* director of Capel-Cure Myers.

■ At BARRY WEHMILLER INTERNATIONAL Mr Michael Windsor *(pictured)* has been made non-executive group chairman. He was formerly joint managing director of Vickers and is currently chairman of the Horstmann Group and *Serck Controls.*

■ Mr Nick Loup has been appointed to the board of TRAFALGAR HOUSE DEVELOPMENTS, a subsidiary of Trafalgar House Property, as the director in charge of the West End offices division in London. He will keep his responsibilities as a director of Trafalgar House Europe Developments.

■ The CABLE TELIVISION ASSOCIATION has made Mr Michael Storey, a group director of Videotron Corporation, its chairman. Mr Jim Dovey, managing director of United Artists Cable Television International, becomes vice chairman.

■ *PERICOM TECHNOLOGY,* the corporate computer systems specialist, has a new managing director. Mr Terry Wilkins has been appointed in succession to Mr Ron Cragg, thus freeing Mr Cragg to continue in his role as group chairman.

■ INSURANCE BROKERS INTERNATIONAL, Lloyds broker, has acquired the majority shareholding in a Guildford-based broker, Campbell Broking Insurance Services. Mr Paul Beattie, managing director of IBI Group and Mr Anthony Oakley, a director of IBI, join the board, the latter becoming chairman. Mr Rob de la Hoy remains managing director assisted by Mr Chris Freeman.

■ YJ LOVELL (HOLDINGS) has appointed Mr Gerrard McCormack as group financial controller. He joins from Ernst & Young, where he was senior audit manager at its Swindon office.

TRADE FAIRS, EXHIBITIONS & CONFERENCES

OCTOBER 15-17
The Interactive Multi-media Event. (Time '91)
This is the largest Multimedia Exhibition and Conference in Europe *with over 80 exhibitors and 60 speakers.* The event will demonstrate the benefits and versatility of multimedia in such areas as retail, banking, finance, publishing, advertising, leisure, education and training. Wembley Exhibition Centre Hall 2/3. Contact: Louise Cooke. Tel: 071 383 3323
LONDON

OCTOBER 16
Europe's Future: Four Scenarios
In light of various driving forces for change, and different options for widening and/or deepening the EC over *the next 20 yrs, by expert members of* Study Group and guest speakers. Contact: Federal Trust, Tel: 071 259 9990
LONDON

OCTOBER 17
ACCOUNTING AND TAXATION TECHNIQUES IN FRANCE
The Selfridge Hotel, London W1. For further information contact Mary Parker-Jervis, Business Research International on 071 637 4383
LONDON

OCTOBER 18
ACCOUNTING AND TAXATION TECHNIQUES IN THE USA
The Selfridge Hotel, London W1. For further *information* contact Mary Parker-Jervis, Business Research International on 071 637 4383
LONDON

OCTOBER 21
PAY AND PLAY GOLF *SEMINAR*
Devoted to overcoming the barriers to pay and play golf development. International experts on the golf market, construction and environmental issues, finance, the law and marketing. Contact British Sports and Allied Industries Federation. Tel: 081 681 1242 Fax: 081 681 0012
LONDON

OCTOBER 21-22
The Future of Kuwait: A Strategic perspective.
This two-day Conference at the Hotel Inter-Continental will involve International Experts, Corporate Executives Academics and Top Government Officials from Kuwait, Europe, USA, Japan, and the Middle East who will meet to discuss and present a strategic perspective on Kuwait Contact Strategic Investment Forum Ltd. Tel: 071548 9919, Fax: 071 895 1366.
LONDON

OCTOBER 22
DOING BUSINESS IN GERMANY
A comprehensive guide to corporate strategy. Sponsored by: Coopers & Lybrand European and Carre, Orban & Partners. Covering the strategic legal, M&A, accounting and personnel differences when compared to the UK. Contact: FIBEX TEL: 071 489 9944 Fax: 071 236 6140
LONDON

OCTOBER 22
COMMERCIALISING THE I.T. DEPARTMENT
Examines the arguments for an against different forms of commercialisation and explores key factors in successfully making the transition. Contact Business Intelligence. Tel: 081 944 1591, Fax: 081 944 0332
LONDON

OCTOBER 22
ECONOMIC PROSPECTS FOR DEVELOPING COUNTRIES
Patterns of Industrial Production and Developing Country Trade
Organised by the Overseas Development Institute.
A discussion *between senior officials* from the International institutions producing economic forecasts and the corporate planners, economist and policy-makers who use the forecasts Enquiries: ODI conferences Tel: 071 487 7413 Fax: 071 487 7590
LONDON

OCTOBER 22-23
CAPITAL INVESTMENT FOR EUROPE'S RAILWAYS
An analysis of capital investment requirements and private financing *options with speakers from the EIB, the* Community of European Railways, EUROFIMA, the EC, bankers, lessors and lawyers. Contact: Caroline Carter at Euromoney Asset finance seminars on +44 71 779 8791 or by fax +44 71 779 8795
LONDON

OCT 22 - NOV 2
STRATEGIES FOR SURVIVAL
Two-day crisis management and communication seminars for executives who would benefit from the challenging learning experience of managing real-life business crises - as they happen. Haydock Oct 22&23; London Oct 29&30; Glasgow Nov 5&6. Contact Communication Conferences Tel: 0737 355118 Fax: 0737 373556
HAYDOCK, GLASGOW, LONDON.

OCT 24 - NOV 28
Creative Accounting
Six Thursday evening seminars at LSE intended for senior managers with no specialist background in accounting with need for awareness and misrepresentation of financial reality. Nicola Meakin, Short Courses Office, Tel: 071 955 7227.
LONDON

OCTOBER 29
BRIDGING THE GAP
Successfully Supplying the new Private Sector
Opening address from the Rt Hon Peter Lilley MP A DTI event for potential suppliers. QEII Conference Centre, London SW1 Contact: Paul Groves, ICM Marketing Ltd (0483) 37107 Fax: (0483) 33082 Fee: £125-00 + VAT
LONDON

OCTOBER 29&30
European Postal Services: The Way Ahead
Proposals to open up postal services to competition, the EC's green paper and UK Government legislation will be reviewed. Tel: 071-925 2323 Fax: 071-925 2125
LONDON

OCTOBER 30
Activity Based Cost Management: The Direction For Financial Services in the 90's CBI/DEVELIN & PARTNERS CONFERENCE
Centre Point, London Contact: Sandra Aldred CBI Conferences Tel: 071-379 7400 *Fax: 071-497 3646*
LONDON

OCTOBER 30-31
The Fourth Oil Loss Control Conference
Real and apparent losses in refining and storage. Contact Caroline Little, The Institute of Petrol. Tel: 071 636 1004
LONDON

OCT 31 - NOV 1
Operations and Settlement Strategy for the 1990's
A two-day conference for funds, investment managers and brokers keen to exploit back office cost savings and profit opportunities. Contact Kate Benktander *The Conference Consultancy* Tel: 0932 820802
LONDON

NOVEMBER 4
MAKING I.T. STRATEGY SUCCEED
Drawing on the lessons of highly experienced IT directors the conference explores the success factors and key problems associated with developing IT strategies which generate business benefits. Contact Business Intelligence. Tel: 081 944 1591 Fax: 081 944 0332
LONDON

NOVEMBER 4/5
The new agenda and institutions of European Security Policy.
Expert seminar - limited places available. Who will be taking decisions on European defence in 5-10 year's time? Of interest to those in monitoring of developments in defence. Contact: Judy Keep, Federal Trust on 071-259 9990.
LONDON

NOVEMBER 5
TRADING WITH AND INVESTING IN TURKEY
Speakers from Turkish and U.K. Governments, *banks and private sectors* will introduce the advantages of this rapidly developing market and provide General Election update. Contact Richard Kemp 051 708 5999
NORTH WEST

NOVEMBER 5
PREPARING FOR THE UPTURN
Lloyds Bank/ECGD/International Factors
How to make the best of opportunities to come by improving liquidity, securing prompt payments from buyers overseas and at home, managing increasing sales. Venue: Park Row from 11:30 to 14:00. Free of charge. Contact John Vaughan Tel: 0602 470999.
NOTTINGHAM

NOVEMBER 5
WORKING WITH VDU EQUIPMENT
A seminar where expert speakers examine the *implications* of the EC Directive on workplace practices, health and safety, eye and eyesight testing, screen design and office furniture and lighting. Contact: Peter Russell or Diane Mcgraw Sira Communications Ltd Tel: 081-467-2636 Fax: 081-467-7258
LONDON

NOVEMBER 5-7
TCS&D 91
The Temperature Controlled Storage and Distribution Exhibition - and 'Food Transport in the 90's' Conference. C-MEX, Manchester Contact: Lorraine Rogers FMJ International Publications Ltd Tel: (0737) 768611 Fax: (0737) 761685.
MANCHESTER

NOVEMBER 5-7
Computer Graphics '91.
Assess the financial and technical advantages of computer graphics technology at CG'91. An exhibition and conference featuring: business and presentation graphics, conceptual/industrial design, scientific visualisation, animation and virtual reality. Call Lynne Davey on 081-868 4466 for details.
LONDON

NOVEMBER 6
PREPARING FOR THE UPTURN Lloyds Bank/ECGD/International Factors
How to make the best of opportunities to come by improving liquidity, securing prompt payments from buyers overseas and at home, managing increasing sales. Venue: Edmund Street from 11:30 to 14:00. Free of charge. Contact Mark Bolshaw Tel: 021 236 5808.
BIRMINGHAM

NOVEMBER 7
THE PRACTICAL IMPLICATIONS OF THE PROPOSED EUROPEAN ECOLABELLING SCHEME
A detailed examination of the EC Commission's Communitywide Eco-labelling scheme due to be introduced shortly by EC Regulation. A highly practical conference for product manufacturers, retailers, distributors and advertisers. Contact: Westminster Management Consultants Ltd T: (0483) 740 730 F: (0483) 740 727
LONDON

NOVEMBER 11
BREAKTHROUGH TRADING
(Stocks, Options and Commodities) Seminar with the World's leading Authority on works of W.D. Gann David Bowen An analyst who forecasts with uncanny accuracy. Contact: Stewart D. Thallon. For free information pack. Tel: 0728 75413 Fax: 0728 73656
LONDON

NOVEMBER 12
Challenges in Energy Statistics The Royal Society.
The single market, opening of Eastern Europe, environmental concerns and privatisation of the energy supply industries have led to new challenges in this field. Will this lead to greater openness and access to information or will accurate data now become a scarce commodity? Contact: Judith or Jill at The Institute of Energy on 071-580 0008, Fax: 071-5804420.
LONDON

NOVEMBER 12
Outsourcing I.T.
A Critical Assessment
The conference is specifically designed to help senior IT and business managers assess the potential value of outsourcing to their organisations and identify the factors which contribute to the successful selection and management of such arrangements. Contact Business Intelligence. Tel: 081 944 1591, Fax: 081 944 0332
LONDON

NOVEMBER 12&13
INTERNATIONAL CONFERENCE ON INFORMATION TECHNOLOGY IN THE WORKPLACE
Institution of Electrical Engineers
The effects of Information Technology (IT) on the individual at the workplace will be demonstrated and discussed as will the costs and benefits of IT applications at the organisational level. Enquiries to: Jo Gordon Conference Services, IEE Tel: 071 240 1871. Fax: 071 240 7735
LONDON

NOVEMBER 12-14
In the City
The foremost IT event for the financial services wholesale banking and Insurance sectors. Comprising a senior level conference and an exhibition of over 150 leading-edge technology suppliers.
LONDON

NOVEMBER 12-15
BUSINESS FORECASTING USING A PC
A seminar incorporating hands on experience of relevant forecasting techniques and models. Speaker - Dr Donald Moscato. Contact: Customer Services, Frost & Sullivan Ltd. Tel: 071-730 3438. Fax: 071-730 3343. Quote ref 1065fl.
LONDON

NOVEMBER 14
THE 1991 AMEX BANK REVIEW PRIZE WINNERS' FORUM
Trade Blocs - Soviet and East European Integration
convened by The AMEX Bank Review and The Royal Institute of International Affairs. To be held at Chatham House, 10 St James's Square, London. Enquiries RIIA Conferences. Tel: 071 957 5700: Fax: 071 957 5710.
LONDON

NOVEMBER 14
New Developments in I.T. for the Energy Industries.
Contact Caroline Little, The Institute of Petroleum. Tel: 071 636 1004
LONDON

NOVEMBER 18
JUDICIAL REVIEW
Keynote address by The Rt Hon Lord Justice Woolf
Problems of Law Making without legislation Who is Judicially Reviewable? Practical Guide on how to use Order 53 RSC Using European Law in Judicial Review. A client's perspective. Contact: Charlotte Thornton (IBC) 071 637 4383
LONDON

NOVEMBER 19
RISKS IN BANKING - RECOGNITION AND CONTROL
Contributors include: Geoffrey Bell, Jules Kroll, Brian Quinn, Wolfgang Rieke, Brian Smouha. Sponsors: Cityforum, Touche Ross, Wall Street Journal Europe and S J Berwin. Contact: Marc Lee Tel: (0225) 466744 Fax: (0225) 442903
LONDON

NOVEMBER 19
RECESSION AND RECOVERY: The UK Economy in the 1990s THE HENLEY CENTRE Conference.
How rapid will the recovery be and how well positioned is the UK for the competitive challenges of the 1990s? Contact: Jacqui Gotts Tel: 071 353 9961 Fax: 071 353 2899
LONDON

NOVEMBER 19&20
FINANCIAL SKILLS FOR THE PROFIT MOTIVATED MANAGER
Practical, indepth knowledge for nonfinancial executives. A two-day course enabling you to implement financial and accounting techniques and enhance your profitability. Contact: FIBEX. Tel: 071-489 9944 Fax: 071-236 6140
LONDON

NOVEMBER 19&20
The Petrochemicals Industry - Prospects for the 1990s
Sir Denys Henderson, Andrew Butler, John Akitt and Doug Campbell are among the speakers who will examine the challenges facing the industry. Enquiries: Financial Times Tel: 071-925 2323 Fax:071-925 2125
LONDON

NOVEMBER 20&21
1991 National Conference on Integrated Pollution Control for the Process Industries
The economic realities of IPC regulations - the pitfalls vs the potentials. Convert environmental demands into financial opportunities. Contributions across the board from government and regulating authorities to environmentalists and leaders in the industry. Contact: Stephenie Hodder IIR Scientific & Technical Division. 071 412 0141
LONDON

NOVEMBER 21
Is There A Future For The Independents In th e UK North Sea?
Contact Caroline Little, The Institute of Petroleum. Tel: 071 636 1004
LONDON

NOVEMBER 21&22
US International Tax Planning & Compliance (under subpart "F" and the foreign tax credit provisions) - Two one-day Seminars The Clifton-Ford Hotel, London W1
Contact: Fiona O'Neill, The American Tax Institute in Europe, London Tel: 071 935 7502 Fax: 071 935 6951
LONDON

NOVEMBER 25
NATIONAL VERSUS EUROPEAN REGULATION: POLITICAL ECONOMIC AND CORPORATE *STRATEGIC DIMENSIONS*
convened by the Royal Institute of International Affairs and the Strategic Planning Society. To be held at Chatham House, London. Enquiries The Strategic Planning Society. Tel: 071 636 7737; Fax: 071 323 1692
LONDON

NOVEMBER 25&26
IT OUTSOURCING AND FACILITIES MANAGEMENT
A review of IT Outsourcing and Facilities management in the 1990's by some of the leading experts in the marketplace. Conference Organisers: Contact: Stephenie Hodder. IIR Scientific & Technical Division. 071 412 0141
LONDON

NOVEMBER 26
SAFETY/STANDBY VESSELS-
The New Requirements. Contact Caroline Little, The Institute of Petroleum. Tel: 071 636 1004
LONDON

NOVEMBER 27
Recent Advances in Management Accounting The Gloucester Hotel, London.
To include: Activity based management Performance measurement. Shareholder Value and Throughput Accounting. Organised in association with CIMA. For further information please contact Mary Parker-Jervis, Business Research International on 071 637 4383.
LONDON

NOVEMBER 28
ACQUIRING IN FRANCE
A comprehensive guide to the M&A differences when compared to the UK. Sponsored by: Coopers & Lybrand Europe, Slaughter and May and Credit Lyonnais. Subjects covered include the strategic, valuation, legal, financing and accounting issues. Contact: FIBEX. Tel: 071-489 9944 Fax: 071-236 6140
LONDON

NOVEMBER 28
LIFE AFTER THE RECESSION
One day conference on maximising company performance during economic recovery, at Gatwick Penta *Hotel, near Gatwick Airport, presented by Price* Waterhouse and Rawlinson & Butler. Guest speakers *include* John Banham, Director-General of the CBI. Contact: Brian Quinn Price Waterhouse - 0737 766300
LONDON

NOVEMBER 28&29
KNOW YOUR COMPETITORS
Computer Intelligence & Analysis
Café Royal, 68 Regent Street, London W1R 6EL. Contact: Patricia Donnard, EMP Intelligence Service. Tel: 071 487 5665 Fax: 071 935 1640
LONDON

DECEMBER 2&3
Health Care - The Changing UK Market London
Changes in the provision and purchasing of healthcare, the impact of NHS reforms, developments in medical insurance and the funding of long-term care will be debated. Enquiries: Financial Times Tel: 071 925 2323 Fax: 071 925 2125
LONDON

DECEMBER 5&6
Economic Development and City Challenge - The Way Forward
Addresses every aspect of City Challenge and the implications for the inner city and economic development. Keynote speeches from the Department of Environment and David Blunkett, MP, Shadow Local Government Minister. Contact Mary Parker-Jervis, BRI, on 071-637 4383.
LONDON

DECEMBER 3
DECENTRALISING I.T. SERVICES
The Conference assesses different approaches to decentralising the provision of IT services and examines the problems and issues involved, including *aligning IT organisation with* business structure, and the need for new management processes and working practices. Contact Business Intelligence. Tel: No. 081 944 1591 Fax No 081 944 0332
LONDON

DECEMBER 9
ACQUIRING IN SPAIN
A comprehensive guide to the M&A differences when compared to the UK. Sponsored by: Coopers & Lybrand Europe. Subjects covered include the strategic, valuation, legal, financing and accounting issues. Contact: FIBEX. Tel: 071-489 9944 Fax: 071-236 6140
LONDON

JANUARY 21&22
Rheumatoid Arthritis - Present Studies, Future Solutions.
Updates on the origins, aetiology, pathogenesis, methods of studying and treatment of this important disease. Talks include prospects for Anti-*Inflammatory treatment and an overall* view of Drug therapy. Contact: Stephenie Hodder, IIR Scientific, Tel : 071 412 0141
LONDON

OVERSEAS

OCTOBER 21-25
Environmentally Sound Energy Technologies
and their transfer to developing countries and European economic in transition. This is a most important meeting in view of the world Conference on Climate-Rio de Janeiro June 1992. For further information please contact: Organizing Secretariat, Milan-Itlay (2) 722 62352
MILAN

OCTOBER 22-24
COALTRANS '91
Hotel Inter-Continental, Berlin
The 10th World Coal Trade and Transport Conference & Exhibition - the international coal industry's annual meeting place. Contact: Sonia Gomm, CoalTrans Conferences Ltd., 54 Cheam Common Rd, Surrey KT4 8RJ, UK. Tel: +44 (0) 81-330 3911, Fax: +44 (0) 81-330 5112
BERLIN

OCTOBER 29
INVESTMENT IN THE NEW STATES OF GERMANY
Strategic implementation of direct investments including tax & legal implications for US & Int'l investors; Government Subsidies & Tax Incentives: Seminar leads on to direct & concrete investment discussions with the authorities (Treuhandanstalt & Leipzig Chamber of Commerce & Industry) Contact: Fiona O'Neill, The American Tax Institute in Europe Tel: 071 935 7502 Fax: 071 935 6951
LEIPZIG

OCTOBER 29
TURKEY - POST ELECTIONS
An LCCI update with presentations from Turkey's leading economist, Yavuz Canevi, Dr Mango, Dexion, Fry's Metals and Iktisat Bankasi will access Turkey's prospects for the next two years. Contact: Nyazi Maung, LCCI Tel: 071 248 4444
LONDON

OCTOBER 30&31
COMPETITIVE INTELLIGENCE
Objectives. Systems. Techniques and Analysis. Seminar presented by Kirk Tyson, author of Competitor Intelligence *manual & Guide. Hotel* Baur An Lac. Zurich. Also in London 4-5 November. Contact: IIB SA (Geneva) Tel: (41) 22 788 2751 Fax: (41) 227 788 2726.
ZURICH

NOVEMBER/DECEMBER
FOREIGN PRESENCE WITHOUT FOREIGN TAX
Speaker BARRY SPITZ, Consultant, Professor of International Tax Planning STRUCTURING MULTINATIONALS (Stockholm - November 27; London - December 2) TAX HAVENS (Geneva - November 25; Paris - December 4/5) Organisers ILTI GENEVA tel (41-22) 641385 fax (41-22) 642864

NOVEMBER 7-8
Second International Conference on the automotive industry and the environment
Presenting the latest developments in Traffic Policies & Management; Automotive Materials; Fuels & Emissions & Strategic Management 30 international speakers will identify ways to integrate increasing transport demands with legitimate environment concerns. Contact: Stephenie Hodder IIR Scientific & Technical Division. 071-412 0141
PRAGUE

NOVEMBER 12
Liner Shipping in the 90s
Competition and the future of Liner Conferences, financing tomorrow's ships. Contribution from Karl-Heinz Sagar, Se Yong Park and Alan Bott. Enquiries Financial Times Tel: 071-925 2323 Fax: 071-925 2125
AMSTERDAM

NOVEMBER 12-14
INTERMODAL 91
An international event for everyone in containerisation and combined transport. Comprises three dedicated conferences: Intermodal Europe, the Container Conference and ReeferTrans, and featuring the Intermodal Exhibition, Europe's biggest ever display of combined transport, continer and intermodal equipment and services. Contact: CS Publication on Tel:. 081-330 3911 or Fax. 081 330 5112
BERLIN

NOVEMBER 13
Prospects for Bulk Shipping
Features a major debate on the impact of US Federal & State Oil Pollution Legislation. Enquiries: Financial Times Tel: 071-925 2323 Fax: 071-925 2125
AMSTERDAM

NOVEMBER 13-15
XTRA '91
The World Congress on Open Systems
provides information education and detailed discussion on the developing world markets for open systems. Speakers include Paul Strassmann of the US Department of Defence and Dr A Frederick Path of Boeing. Congress hotline Tel: 0101 416 594 2035 or call X/Open on 0734 508311
WASHINGTON, DC

NOVEMBER 14-15
Technology Co-Operation to Match Global Competition. 2nd European Sprint-Eacro Conference
speakers from the CEC governments, industry and research organisations will examine how Europe could make better strategic use of technology and research funding. Enquiries Carol Jopling ERA Technology Ltd (UK) Tel: +44 372 374151 Fax: 44 372 374496
SEVILLE

NOVEMBER 19-20
AEROSPACE IN THE 1990S - COMPETITION, COOPERATION AND CONSOLIDATION
What are the world aerospace industry's options in a drastically changed business environment? Conference organised by Aerospace World and Booz, Allen & Hamilton. Contact: Clive Rigden, Aeronautica Communications, London Tel: 44 (71) 224 4647 Fax: +44 (71) 224 4961
GENEVA

DECEMBER 2-3
Environment Protection Conference Strategic and Competitive Implications for the Chemical Industry
Senior executives from Europe and the USA analyse the challenges and opportunities in developing constructive solutions to current environmental problems. Organisers: Chemical Insight European Chemical News, Booz Allen & Hamilton & IIR. Contact: Stephenie Hodder IIR Scientific & Technical Division, on 071-412 0141
BRUSSELS

EXHIBITIONS

NOVEMBER 12-15
AUTOTECH
The international bus, truck and car product and manufacturing technology exhibition and Congress. Contact Cameron Baxter. Tel: 021 780 4141
BIRMINGHAM

To advertise in this section please call Dominic Morgan on 071 407 5752

CONSTRUCTION CONTRACTS

Singapore riverside plan

DBS Land's subsidiary Clarke Quay Pte has awarded the main contract for restoration of Clarke Quay alongside the Singapore river to SINGAPORE PILING AND CIVIL ENGINEERING PTE.

The contract valued at S$89.65m (£30.5m) will restore five blocks of shop and warehouses and construct a five-storey car park.

DBS Land, a unit of the Development Bank of Singapore, bought the 21,000 sq metre site from Singapore's Urban Redevelopment Authority in October 1989 for S$54m (£18.4m).

Clarke Quay will be transformed into a festival marketplace offering a wide variety of retail, food and entertainment facilities.

The overall restoration and redevelopment costs, including land and related costs, amount to about S$186m (£63.4m). The costs are within the original budget.

When Clarke Quay opens in late 1993, it is expected to revive the Singapore river front and make a significant contribution to the nation's heritage and tourism.

Emergency sea defences

EDMUND NUTTALL has won a £5.1m contract to undertake the permanent sea defence works at Towyn and Belgrano in Clwyd, north Wales.

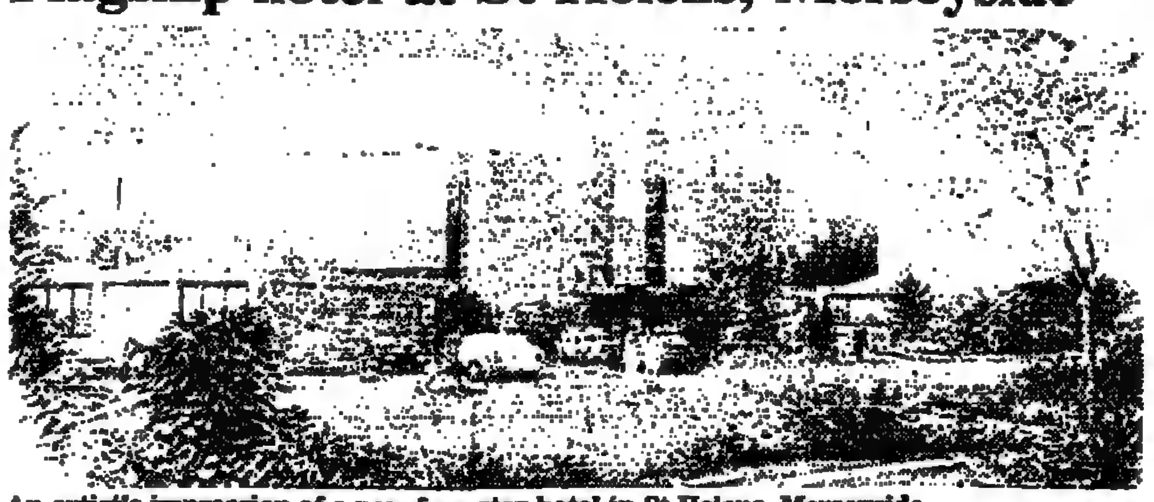
This contract for British Rail follows Nuttall's substantial interim works on the site last summer involving the reinforcement of existing and emergency sea defences [a 500-metre breach in the defence occurred in the unprecedented storm of February 1990].

The contract comprises the construction of permanent works to the existing Rhuddlan Marsh Embankment sea defences. At Towyn, a heavy rock breakwater and armoured revetment is to be placed to the seaward side of the existing embankment, extending over a frontage of 1,225 metres, with returns at the eastern and western extentions. Further along the same embankment at Belgrano, Nuttall will construct another heavy rock breakwater and armoured revetment over a frontage of 730 metres.

The works will be divided into two stages, each with different completion dates. Section 1 comprises the Belgrano works and 630 metres on the eastern side of the Towyn defences, starting immediately and with a completion set for August 1992. Section 2 involves completion of the remaining western extention of defences at Towyn and is due to be finished in April 1992.

The whole project will involve the placing of some 400,000 tonnes of rock ranging up to primary armour stone of five to nine tonnes. It also includes the relocation of heavy rock armour.

Flagship hotel at St Helens, Merseyside



An artist's impression of a new four-star hotel in St Helens, Merseyside

AF BUDGE (BUILDING) of Leeds has started work on a contract worth more than £6m for the constuction of a four-star hotel in St Helens, Merseyside.

The project is the first development for St Helens Hotels and comprises 84 bedrooms in two four-storey blocks with a central atrium and leisure facilities set under four fully glazed pyramid structures to the rear of of the complex.

Other facilities include conference and banqueting rooms, a swimmming pool, cafe area and two restaurants.

Building office complex in Coventry

HIGGS AND HILL MIDLANDS has been awarded an £8.9m contract for the construction of a three-storey office and production unit by Brose in Coventry.

The project requires the construction of a complete production facility covering some 10,000 sq metres with associated office buildings providing around 1,650 sq metres of office accommodation.

The office building will have piled foundations and a concrete floor slab with a steel frame and metal cladding.

The production area is some 134 metres long and ranges in height from 12.6 metres to 15.5 metres at the central spine. In addition, external works include car parking, a lorry loading area and landscaping.

Higgs and Hill Overseas is to undertake a major upgrading and expansion of buildings at Sangster International Airport at Montego Bay for the Ministry of Public Utilities and the Airports Authority of Jamaica.

The project valued at £6m will be undertaken over 16 months and involves the expansion of the departure concourse and lounge areas together with alterations to departure facilities and the creation of a public waiting area.

The customs, arrivals and in-transit facilities are to be extended and new covered public waiting areas, walkways, additional car parking and a police station are to be provided.

The work involved in upgrading the airport covers some 17,330 sq metres and the expansion will create a further 6,367 sq metres of useable space. The single-storey extension to the departure area will have concrete foundations and in situ concrete columns, with precast "double T" roof slabs spanning 18 metres.

Multiplex cinema for Portsmouth

Hilsea-based building contractor WARINGS has been awarded the £2m contract to build a six-screen cinema at the Port Solent Marina development on the northern outskirts of Portsmouth.

Work has started on the 1,534-seat cinema with completion planned for late summer 1992.

The 28,725 sq ft building, with a semi-basement car park and an external car park, will be located immediately adjacent to the Boardwalk restaurant and retail complex at Port Solent.

Warings were responsible for carrying out the initial civil engineering works at Port Solent, and also built the Port House and the Boat Centre.

Designed to complement the architectural features of the Boardwalk, the building will be constructed mainly of brick, with white render, decorative balustrading and exposed timber detailing.

United Cinemas International, the multiplex operator, will operate the new cinema on its completion.

£10.6m orders for Try

The TRY GROUP, based at Uxbridge Middlesex, has won a batch of orders worth £10.6m, the bulk of which is for educational work.

Heading the list is a £6.25m project for Try Construction at St John's College, Oxford University, involving new residential and communal areas.

Designed by architects, MacCormac, Jamieson and Prichard, a series of two and three-storey residence blocks, totalling 29,000 sq ft, will be linked by a central courtyard and ornamental gardens on two levels.

The ground floor accommodation will include an auditorium, kitchen/dining room, gallery and reception areas.

The governors and trustees of St Dunstan's Church of England School in Cheam, Surrey have awarded Try Construction a contract to build a primary and nursery school worth £2.4m. Work starts immediately on the 24,000 sq ft building which is to be completed by February 1993.

Contracts worth £2m have been awarded to sister company Try Build by The British Railways Board on the Channel Tunnel project, North Pole depot (£758,398); the PSA at HM Naval Base, Portsmouth (£599,584); British Gas at Staines (£449,660); The London Borough of Hillingdon for housing works (£98,914) and Royal Bank of Scotland at Grosvenor Gardens, SW1 (£96,522).

Married service quarters

HALL & TAWSE has won two design and build contracts worth nearly £3m from the Property Services Agency. The projects in Staffordshire and Hampshire involve the construction and upgrading of married service quarters.

Hall & Tawse Western has started work on a 35-week £1.7m scheme to demolish old buildings and construct 30 homes for servicemen's families at RAF Stafford.

The detached and semi-detached three bedroom homes are being built on a 3.5 acre site complete with landscaping, a children's play area and car parking.

The £1.25m Hampshire project has been awarded to Hall & Tawse Southern. The contract incorporates modernising and extending 10 three-bedroom homes and converting 62 two-bedroom terraced houses into 31 three-bedroom properties.

PUBLIC NOTICES

Reality Post Production Limited
(In Receivership)

NOTICE IS HEREBY GIVEN, pursuant to Section 67(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above named company will be held at the offices of Cork Gully, Kintyre House, 209 West George Street, Glasgow, G2 2LW on Monday 28 October 1991 at 3.00 p.m. for the purposes of having laid before it a copy of the report prepared by the Joint Receivers in accordance with the said Section and, if thought fit, appointing a creditors committee.

Creditors whose claims are wholly secured are not entitled to attend or vote at the meeting. Creditors who are partly secured may only vote in respect of the balance of the amount due to them after deducting the value of the security, as estimated by them.

Creditors wishing to vote at the above meeting must lodge a written statement of their claim with us at or before the meeting. Proxies intended to be used at the meeting must also be lodged with us at or before the meeting.

Frank Blin
C J Hughes
Joint Receivers

RENTALS

COMPANY NOTICES

NOTICE OF RESOLUTION OF PAYMENT OUT OF CAPITAL
V.N.G. GROUP LIMITED

NOTICE is hereby given in accordance with the Companies Act 1985 ("the Act") that:-

(a) V.N.G. Group Limited ("the Company") has approved a payment out of capital for the purpose of acquiring its own shares by purchase;

(b) the amount of the permissible capital for the shares in question is £358,246.50 and the resolution approving the payment out of capital was passed on 9th October 1991;

(c) the Statutory Declaration of the Directors and the Auditors; Report required by Section 173 of the Act are available for inspection at the Company's registered office; and

(d) any creditor of the Company may at any time within the 5 weeks immediately following the date of the resolution for payment out of capital apply to the Court under Section 176 of the Act for an Order prohibiting the payment.

DATED: 11th October 1991

K.A. Jones - Company Secretary

LEGAL NOTICES

MEETING OF CREDITORS
Pursuant to Sections 98, 99, 100 and 101 of the Insolvency Act 1986
BIG DIPPER LIMITED

NOTICE IS HEREBY GIVEN pursuant to Section 98 of The Insolvency Act 1986, that a meeting of the creditors of the above-named Company will be held at The Palace Hotel, 31 Great Cumberland Place, Marble Arch, London W1, on 28th October 1991 at 12.00 noon for the purposes provided for in Section 98 et seq.

A list of names and addresses of the above Company's Creditors can be inspected at the offices of Latham Crossley & Davis, 48 Conduit Street, London W1R 9FB, between the hours of 10.00 am and 4.00 pm on the two business days preceding the Meeting of Creditors.

Dated this 8th October 1991
C. Twaddell, Director

THE WEEK AHEAD

ECONOMICS

Focus on producer prices and output

BY a trick of statistical compilation, this week's UK producer prices figures unusually follow the retail prices index. The September RPI rose *at an annual 4.1 per cent, after* 4.7 in August, it was reported on Friday.

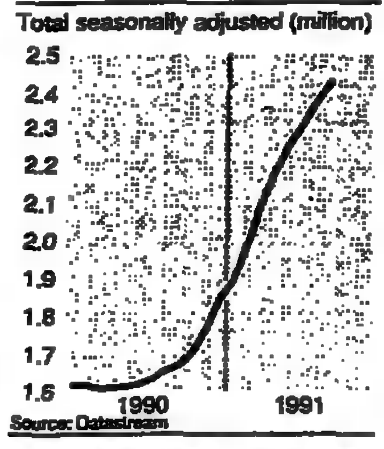
Tomorrow's producer prices will still be scanned for evidence of the sharp slowdown *in underlying inflationary pressures* that led the government to claim last week that UK inflation has been brought down to German levels.

On the output side, there has been *a deceleration from* an annual 5.8 per cent in June to August's 5.6 per cent. Economists, however, expect prices at the factory gate to lift 0.2 per cent in September to give *an annual rate of 5.5 per cent.*

As commodity prices dropped in September, and oil prices rose by around 0.7 per cent, a fall is expected on the input side. The seasonally-*adjusted index of fuels and raw* materials purchased by manufacturing industry is expected to decline by 0.7 per cent in September, giving an annual rate of a negative 3.3 per cent.

UK unemployment

Total seasonally adjusted (million)



Source: Datastream

UK industrial output data tomorrow are expected to show that the recession in output bottomed out in April. Economists expect August manufacturing output to show falls on the month, but the underlying trend to improve as North Sea oil output picks up after prolonged interruptions.

On Wednesday, the state of the public finances will be glimpsed with the release of the public sector borrowing requirement for September – an expected £1.9bn deficit.

On the international front, there is not much expectation that the G7 meeting in Bangkok will try to fix the Yen *within given limits.*

Other notable events and statistics, with median market forecasts compiled by MMS International, the financial research company, in brackets, include:

Today: Bangkok, joint annual IMF/World Bank meetings continue. US, business inventories for August. UK, parliament returns from summer recess. Japan, September trade balance ($9.6bn). Spain, September consumer prices index (0.9 per cent).

Tomorrow: UK, producer price indices for September, *input (down 0.7 per cent)* and output (0.2 per cent), August industrial production (0.1 per cent) and manufacturing output (down 0.3 per cent). France, September CPI (0.3 per cent). US, August business inventories (down 0.1 per cent). Japan, August machinery orders, *September* wholesale price index.

Wednesday: UK, September public sector borrowing requirement. US, two- and five-year note auctions, domestic car sales 1-10 October. Japan, industrial production.

Thursday: UK, *September* unemployment (55,000), average earnings (7.25 per cent) for August, and manufacturers' unit wage costs for August (6.9 per cent). US, September consumer prices *(0.2 per cent)*, ex food and energy (0.3 per cent), August merchandise trade deficit (down $5bn), merchandise exports ($35.5bn), imports ($40.9bn), September industrial production (0.2 per cent), September capacity utilisation (80.0), 52-week bill auction, money supply data.

Friday: UK, September provisional money supply. September housing starts, US, housing starts, building permits for September. UK, M0 (0.1 per cent) and M4 (0.4 per cent), M4 lending (£1.5bn).

During the week: Japan, September money supply (2.5 per cent). Germany, September WPI (0.2 per cent), PPI (0.1 per cent).

Rachel Johnson

RESULTS DUE

LUCAS Industries, the *automotive and aerospace* engineering group, is expected to announce on Monday a collapse in pre-tax profits for the year ending July. In line with its profit warning earlier in the year, taxable profits are expected to be around £80m, as against £191.2m in the comparable period last year.

Analysts are more interested in what the company will be forecasting for the full-year in 1992. Reflecting market uncertainty, forecasts vary from as low as £50m to £130m.

Shares of Albert Fisher, the food processing group, have been under pressure over the past fortnight, falling from 110p on September 26 to close at 87p last night. The company announces its results for the year ended August on Thursday. In recent days, analysts have been scaling back their forecasts to around £90m from £94m, compared with £74.4m earned in the previous year.

One depressing factor has been a French mushroom subsidiary saddled with poor quality stocks. Besides the profit downgrading, rumours of a rights issue have also *undermined the share price.*

Lloyds Chemists, which this week expressed some indignation at having its £83m bid for Macarthy referred to the Monopolies and Mergers Commission, has forecast a pre-tax profit increase of more than 50 per cent to £20.6m for the 12 months to June 30. It reports on Tuesday.

The forecast came as it announced its bid for Macarthy, which owns the Savory & Moore chain of chemists' shops. If Lloyds could add these 175 stores to its existing 635, it would consolidate its position as the second biggest chemist retailer, behind Boots. But the MMC deliberations will take about three months.

Also on Monday, Highland Distilleries is expected to report a healthy 13 per cent rise in pre-tax profits for the year ended August to £28m, fuelled by further export growth of its Famous Grouse Scotch *whisky. Highland,* whose results were 19 per cent ahead at the interim stage, predicted that second-half trading would be more difficult.

PARLIAMENTARY DIARY

■ Today
Commons: debate on the defence estimates.
Lords: Export and Investment Guarantees Bill, report stage.

■ Tomorrow
Commons: second day of debate on *the defence* estimates. Debate on the future of the European coal and steel community.

Lords: British Technology Group Bill, third reading. Seven Bridges Bill, second reading. Question to government on action to *alleviate difficulties in the car* industry.

■ Wednesday
Commons: Cardiff Bay *Barrage* (No. 2) Bill, second reading.
Lords: Debate on the defence estimates.

■ Thursday
Commons: Debate on outstanding reports of the Public Accounts Committee.
Lords: Debate on EC report on the future of the CAP. Debate on the EC report on civil liability for damage caused by waste.

■ Friday
Commons: Debate on the policing of London.

UK COMPANIES

■ TODAY

COMPANY MEETINGS:
Cook (D.C.), Cedar Court Hotel, Denby Dale Road, Calder Grove, Wakefield, 10.00
ECU Tst., 25, Copthall Avenue, E.C., 12.30
Mid Wynd Int. Inv. Tst., 10, Glenfinlas Street, Edinburgh, 11.00

BOARD MEETINGS:
Finals:
European Leisure
Highland Distilleries
Kalamazoo
Lucas Inds.
Lyles (S.)
Multitrust
Prestwick
Tay Homes
Interims:
Britannic Grp.
Doeflex
Helene
Palma Grp.
Roskel
Venturi Inv. Tst.

■ TOMORROW

COMPANY MEETINGS:
Howard Hldgs., Kingston Lodge Hotel, Kingston Hill, Kingston upon Thames, 10.30
McKay Securities, 20, Parkside, Knightsbridge, S.W., 12.00
Practical Inv. Co., 111, Cannon Street, E.C., 12.30
BOARD MEETINGS:
Finals:
Paterson Zochonis
St. Ives
Interims:
Brown (N.)
Elswick
Farnell Elect.
London Atlantic Inv. Tst.
Polymark Int.
Quadrant
Silentnight

■ WEDNESDAY OCTOBER 16
COMPANY MEETINGS:
Abingworth, Mayfair Hotel, Stratton Street, W., 3.00
Alumasc, Farmers & Fletchers Livery Hall, Cloth Street, E.C., 10.30
Armitage Bros., Armitage House, Colwick, Nottingham, 11.00
Close Brothers, 33, Great St. Helens, E.C., 12.00
Jos Hldgs., 20, Fenchurch Street, E.C., 12.30
Macro 4, The Brewery, Chiswell Street, E.C., 12.00
Smith (W.H.), Millbank Tower, S.W., 11.30
Wholesale Fittings, Institution of Electrical Engineers, Savoy Place, W.C., 10.30
BOARD MEETINGS:
Finals:
Thorntons
Interims:
English & National Inv.
Essex Water
Gerrard & National
Lilley
Suffolk Water

■ THURSDAY OCTOBER 17
COMPANY MEETINGS:
Elbief, Prince of Wales Lane, Birmingham, 12.00
Newmark (Louis), 15-25, Ormside Way, Redhill, 11.30
SWP Grp., The Registry, Royal Mint Court, E.C., 11.00
Saville Gordon, 2, Stirling Road, Edgbaston, Birmingham, 11.00
BOARD MEETINGS:
Finals:
Albert Fisher
Castle Comm.
Cradley Grp.
M.Y. Hldgs.
Interims:
Amer Grp.
Boot (Henry)
Brook Service
Chepstow Racecourse
Govett Oriental Inv. Tst.
Hunting
Smith (James) Estates

■ FRIDAY OCTOBER 18

COMPANY MEETINGS:
Black (Peter), The Brewery, Chiswell Street, E.C., 12.30
Brasway, All Saints Church Hall, Walsall Road, Darlaston, Wednesbury, 10.30
Ex-Lands, 10, Norwich Street, E.C., 11.00
Second Alliance Tst., Meadow House, 64, Reform Street, Dundee, 12.30
Usher (Frank), 100, The Broadway, West Hendon, N.W., 11.30
BOARD MEETINGS:
Finals:
Value & Inc. Tst.
Interims:
Contra-Cyclical Inv. Tst.
Downiebrae
HTV
Halls Homes & Gardens
Le Creuset
Mezzanine Cap. & Inc. Tst.
Owen & Robinson

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbey National 3.5p
Australia (Commonwealth of) 9½% Ln. 2012 (Br) 4¾pc.
Do. (Reg) 4¾pc.
BZW Conv. Inv. Tst. 3.2p
City Centre Restaurants 0.45p
Copymore 1p
Gaskell 3p
IMI 4.2p
Kleinwort Benson 5.3p
Mallett 1.5p
Molins 3p
Pentos 0.7p
Rockware Grp. 2p
Scottish Eastern Inv. Tst. 0.46p
Smaller Co's Inv. Tst. 1.2p
Wace Grp. 2.25p
Warnford Invs. 4.5p

■ TOMORROW
American Brands 12½% Un. Ln. 2009 6¼pc.
BCE 64cts.
BLP Cv. Cm. Rd. Pf. 4p
Bradford & Bingley Bldg. Society Fltg. Rate Nts. 1999 £281.20
British Assets Tst. 4½% Pf. 1.575p
Do. A 5% Pf. 1.75p
Canadian & Foreign Sec. 500cts.
Chrysler 15cts.
Cleveland Place Hldgs. 6% Rd. Db. 1989/94 3pc.
Cook (D.C.) 1p
Eldridge Pope 6¼% Irrd. Un. Ln. 3⅛pc.
Do. 7½% Irrd. Un. Ln. 3¾pc.
Expedier 0.5p
Finland (Republic of) 11½% Ln. 2006 (Reg) 5¾pc.
Do. (Br) 5¾pc.
Ficor 8cts.
Goode Durrant 3.5% Cm. Pf. 0.875p
Govett Strategic Inv. Tst. 9⅞% Db. 2017 4⅜pc.
Halifax Bldg. Society Fltg. Rate Nts. 1995 £281.20
Inch Kenneth Kajang Rubber 3p
Kakuzi 60cts.
Manders 5% Cm. Pf. 1.75p
Merton (London Borough of) 11¼% Rd. 2017 5⅝pc.
Metropolitan Water Southwark & Vauxhall Water 3% Db. 1½pc.
Morgan (J.P.) 49.5cts.
Motorola 19cts.
National Power 5.5p
Do. (100p Pd.) 5.5p
Do. (Fly.Pd.) 5.5p
News Corpn. 5cts.
News Int. 2.3775p
Occidental Pet. 25cts.
Pacific Gas & Elect. 41cts.
P.ttencrieff 2.5p
Practical Inv. 2.575p
Quaker Oats 43cts.
Rexmore 13% Cv. Cm. Rd. Pf. 6.5p
Richards 5½% Cm. Pf. 1.44375p
Do. 4% Cm. *Pf.* 1.4p
Royal Tst. Govt. Sec. Fd. Ptg. Rd. Pf. 1.4p
Sindall (Wm.) 5.625% Cv. Cm. Rd. Pf. 2.8125p
SmithKline Beecham 3.75p
SmithKline Beecham/SmithKline Beckman Equity Units 46.16cts.
Sweden (Kingdom of) 11¼% Bds. 1993 £93.75
Treasury 10% Ln. 1993 5pc.
Wereldhave Prop. 9.5% 1st Mtg. Db. 2015 4¾pc.
Do. 10.75% 1st Mtg. Db. 2015 5.375pc.

■ WEDNESDAY OCTOBER 16
AIM Grp. 4p
American Tst. 1.5p
Armitage Bros. 3.2p
Border Television 1.22p
Eurotherm Int. 2.5p
Hewlett-Packard 12.5cts.
Howard Hldgs. 0.5p
Linread 2p
McKay Sec. 3.4p
Do. Cap. 3.4p
Mid Wynd Int. Inv. Tst. 3.4p
Nordiska *Investeringsbanken* 10¼% Nts. 1993 5⅛pc.
Pendragon 2p
Swansea (City of) 13¾% Rd. 2006 6⅞pc.
Treasury 2½% I.L. 2020 £1.9721
Woodchester Inv. 1.51p

■ THURSDAY OCTOBER 17
BBL Int. Gtd. Fltg. Rate Nts. 1999 $160.44
Bank of New York O'seas Fin. Gtd. Fltg. Rate Sub. Nts. Jan. 1996 £158.13
Close Brothers 6p
Commonwealth Bank of Australia Gtd. Und. Cap. Nts. $320.89
Energie Beheer Nederland 9% Nts. 1990/95 4½pc.
Leeds Permanent Bldg. Society Fltg. Rate Nts. 1994 £141.31
Nationwide Anglia Bldg. Society Fltg. Rate Nts. 1996 £140.68
Oliver Grp. 1.07p
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CONTRACTS & TENDERS

ARCHITECTURE

Where patronage proves a point

If there was a *Financial Times* Patron's Prize for Architecture, patronage being a key factor in securing good new buildings, one of the first recipients would certainly be Stuart Lipton. His various development companies have done more to raise the standards of *commercial* architecture than any other group of property companies.

They have also done some daring things, like taking on the redevelopment of Liverpool Street Station with its supporting commercial development, or seizing the apparently unlikely opportunity of reclaiming a huge waste tip near Heathrow Airport and transforming it into Stockley Park. Now that the sensible decision has been taken to build the Channel Tunnel rail link through East London to King's Cross, the Lipton/Foster proposals for the redevelopment of the Kings Cross Railway Lands are likely to become a reality.

In the long short list for this year's *FT* Architecture at Work Award six of the twelve entries are products of Lipton's teams. Four of them are at Stockley Park, for the Stockley Park Consortium Limited. The site of this major business park is some 350 acres of former gravel workings and rubbish tips near Heathrow airport. A masterplan was prepared by Arup Associates creating a 250 acre landscaped park, an 18 hole golf course and 90 acres of commercial development.

At the centre of the development is a building called The Arena – a social and sports club with shops, restaurant and conference facilities, designed by Arup. Unlike the lightweight pavilions which house the commercial activities, the Arena is a blockwork bastion with a large rotunda – not uninfluenced by James Stirling's rotunda at the Staatsgalerie at Stuttgart. It lies long and low by its lake, with earth banking decreasing its apparent volume. Inside the 25 metre swimming pool has lovely long views of the landscape and terraces. The choice of masonry blockwork has given it a somewhat harsh and defensive appearance – something that the developers must also feel as creepers are being planted on the south wall to soften it.

For the business "pavilions", the Consortium has selected a range of architects. The first of the three buildings visited by the *FT* jury, now tenanted by Apple Computers, was designed by the relatively young firm of Troughton McAslan Limited. This building broke the mould established by the early Arup pavilions, that looked faintly Japanese with their gently pitched roofs and submission to the landscaping. Troughton McAslan has erected an elegant prism with a curved barrel vault roof, and decorated the prism with "sails" as sunshades and bright blue fire escape stairs. Internally, the double height circulation street works well and is well used by the client. Alas, the wall cladding selected for the outside undulates and waves about in a way that completely undermines the ideal of the perfect, flat, polished prism.

The building occupied by the UK operation of American toy company Hasbro Bradley demonstrates the success of the more traditional Arup formula. This building retains its almost Japanese profile and relates well to the watery landscape. Arup's buildings at Stockley, unlike some of the later ones, do not look as though the architect is just trying to improve the basic shed. They have a solidity and permanence. Hasbro Bradley has made the most of the interior of its premises, particularly with a fine collection of carefully chosen contemporary art.

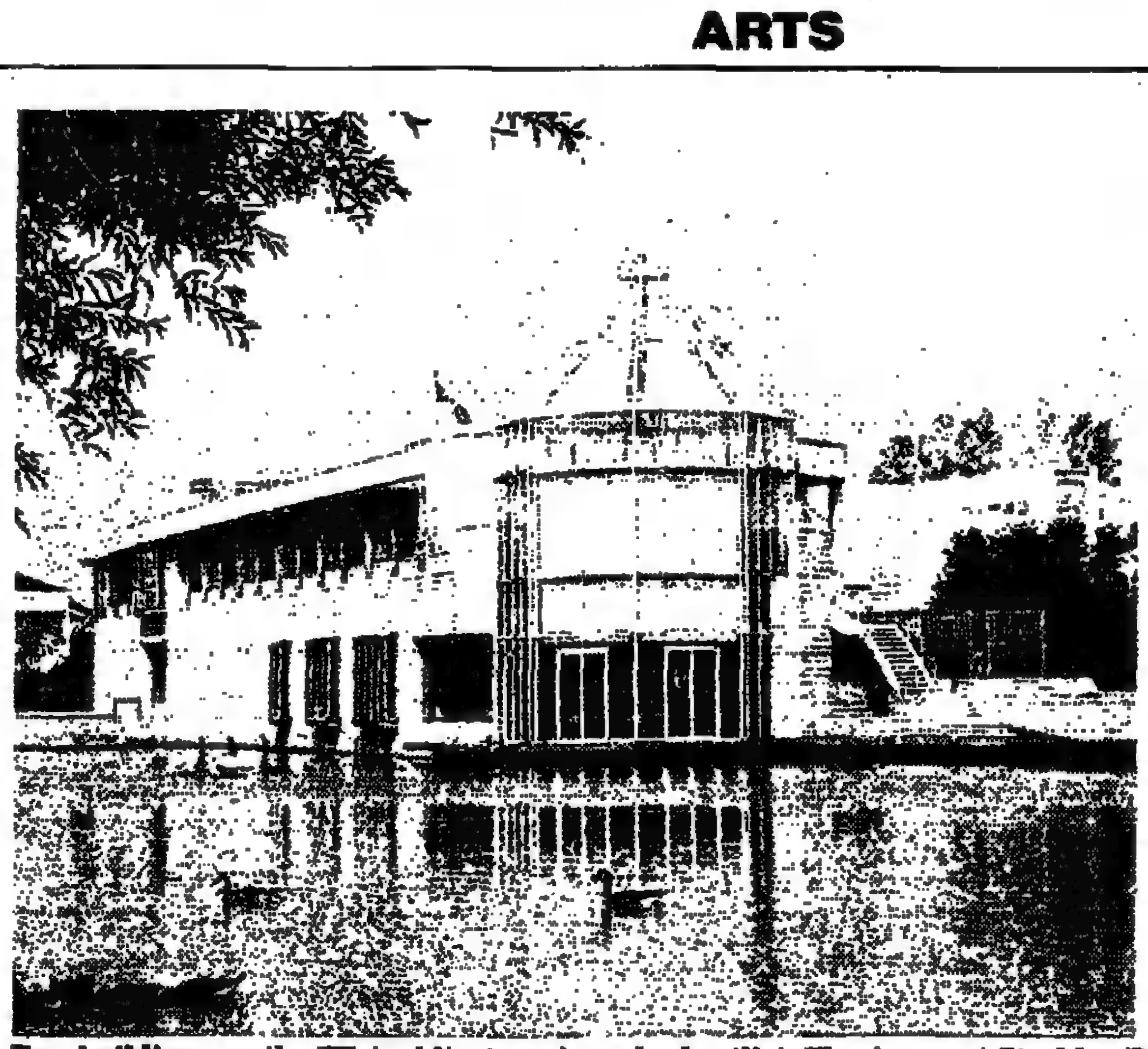
In the *FT* jury's view, the most beautiful new building at Stockley Park is the one designed by Ian Ritchie – known only as "B.8." The architect has designed a sealed glass cube behind a slender colonnade that supports a series of sunscreens. It is the harmony and elegance of its proportions that pleases, as well as the almost pin-striped neatness of the whole conception. Looking out from this building on to the artificial Arcadian landscape of the park is a "romantic" experience. The world of Motopia that is in reality so near has been banished and the tenants of these pristine temples are sealed in air conditioned comfort in a temporary, somewhat unrealistic paradise.

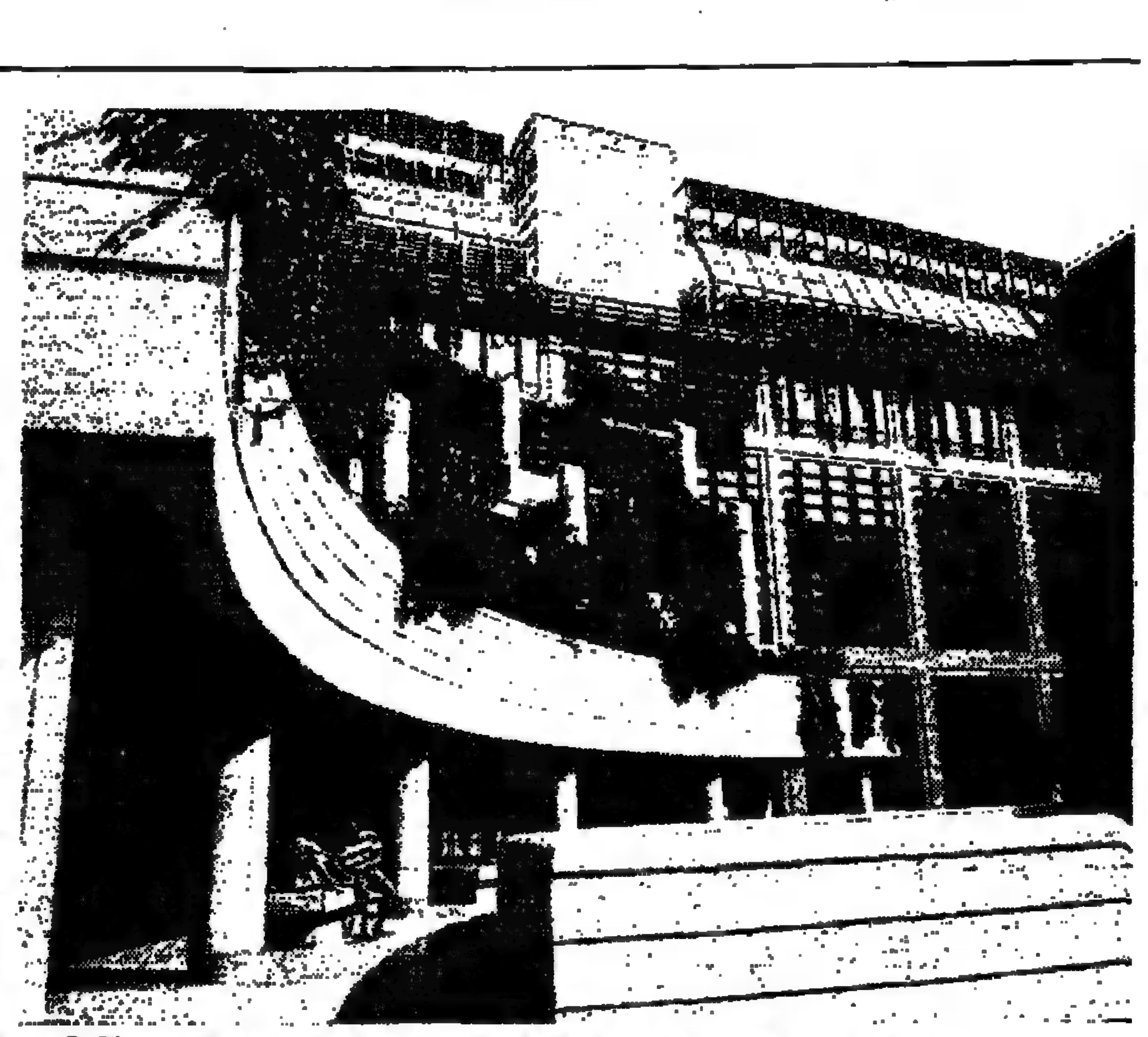
In the City of London Lipton has also applied his ideological commitment to the heroic power of the Modern Movement. It is a certain belief that an entirely new world can be created. He chose to do so at Liverpool Street where he was faced with the relics of the 19th century – a crumbling railway infrastructure, the need for a new station and the opportunity for major commercial development. Broadgate occupies part of the site – some 8.8 acres developed according to another Arup masterplan. The four main office buildings surround a new square, the centre of which is occupied by an ice rink in winter and an arena in summer.

This is not the London equivalent of the Rockefeller Centre on New York's Fifth Avenue, because it is isolated from the City in its own enclosed world. The architecture with its repetitive external frames almost overdoses on atria, pink granite and grid patterns. Apart from the ice rink and the service shops it is an office world graced with trees and squares, but silent and empty after hours.

Broadgate is a very high standard urban business park – perfectly tailored, cool and planned. This new world still seems rather unreal.

Colin Amery





Two buildings on the FT Architecture Awards shortlist: The Arena at Stockley Park (left) and Broadgate, London, both designed by Arup Associates

La Bohème

GLYNDEBOURNE

Autumn brings mists, mellow fruitfulness, and Glyndebourne Touring Opera, one of Britain's most valuable and necessary purveyors of opera. After the customary opening fortnight at the home theatre, the company fans out across the country and beyond – Dublin is this year a new stopping-point on the schedule. The bill of fare – *Jenufa* (in the 1989 festival production by Nikolaus Lehnhoff) and *Così fan tutte* (ditto this year's Trevor Nunn production) – is completed by a brand-new *Bohème* devised specially for the tour.

The mixture is a sensible one, though it's permissible to wonder why the special GTO resources could not have been directed toward a less familiar part of the same repertory (Puccini's *Trittico*, say, much in need of discriminating rediscovery in this country). But no doubt these reproaches could be made only because, as shown on Saturday, the new *Bohème* – conductor Ivor Bolton, producer Aidan Lang, designer Russell Craig – proved so comprehensively ill-executed. Success would have settled the argument beyond question.

The Glyndebourne label always raises expectations of a basic level of expertise and finesse. This *Bohème* gives off the feeling of a student performance promoted above its station. *The problems start* with the actual sound: prolongedly loud, clotted, coarse-toned, with hardly a let-up in the orchestral assault. Mr Bolton, a stylish interpreter of 18th-century dramatic music, seems totally out of his element in Puccini, over whose instrumental lines the GTO Opera Orchestra are permitted to rampage with hobnail boots and a woeful lack of concern for dynamic variety. If the conductor was unschooled in the dangers of confronting Glyndebourne's tricky acoustics with Puccini's scoring, someone more experienced should have been there to guide him. One's heart goes out to the young cast: *climaxes are a matter of* "shout or drown" for almost all of them.

The production is worked on a single set made variable by its metal walkways and overhead gantries – in Act 3 the combination achieves the effect and atmosphere of a narrow precinct in some particularly disheartening modern shopping-complex. A certain ingenuity marks the swift end-of-act scene-changes, and one midway through Act 2, which I personally should have been glad to sacrifice for the faintest impression of directorial insight into character and situation.

Until the death scene the staging shows scant awareness of who these young people are, how they interact, and why an audience should care about them. The cast is, I guess, inherently not very strong – the lower-voiced Bohemians sound a rather woolly-toned crew – but much more could have been done with all of them.

The robust vocal sparkle of Susan McCulloch's Musetta is a passing pleasure, and the unfailing delicacy, musicality and care over detail of Anne Dawson's Mimi the performance's most reliable asset. Of David Maxwell Anderson, the Rodolfo, it is painful to have to write ill. As those who have followed him since his student days will know, this young Scot currently figures as Britain's brightest young *spinto* tenor hope. If he goes on belting the way he did on Saturday, and fails to consolidate technical support, the career will surely be a short one.

Max Loppert

David Maxwell Anderson as Rodolfo and Anne Dawson as Mimi

Decadence

NEW END THEATRE, HAMPSTEAD

TEN YEARS after its premiere here, Steven Berkoff's *Decadence* returns to The New End Theatre, Hampstead. It has aged gracelessly, like a difficult dowager screaming obscenities from the fireside. But it is still worth seeing.

Berkoff's four characters come over as easy class-stereotypes: Helen and her lover Steve guzzle champagne and chocolates at the opera, while Steve's wife Sybil and her lover Les swill beer in front of the TV. They characters tell of their past lives and present hopes; their collective kick at misery passes for plot. All four are superbly played by Emma Parish and Mike Tucker, two pinstriped horrors inventively directed by Rikki Tarascas. The set is black, minimal, deprivation chic: there is only the inevitable white sofabed.

Decadence is not about decadence but excess. Berkoff makes the English mistake of assuming that decadence means over-indulgence in the bedroom or restaurant. Profound decadence is a cultural malaise, a spiritual calling that enervates the soul and cloys the appetites. As such, decadence is essentially undramatic, a one-way ticket to sickly impuissance. Berkoff's public bestiary proves it: excessive eating, drinking and whoring are not dramatic, they are not even spectator sports; they may provide the thrill of a healthy crime, but they are solipsisms.

However, the real strength of *Decadence* is its ability to deliver some wickedly funny episodes: Helen recounts the joys of hunting – "If you haven't hunted, explaining it to you is a bit like explaining sex to the Pope" – while she rides Steve round the sofa. Steve in turn spits out a brawling monologue on Mescal. Both revel in wild, Johnsonian catalogues of food which even Epicure Mammon would have been proud to compile. Sybil and Les, on the other hand, are brutalised and cynical. Les's thinks about the rich ("They can fiddle, screw the State, form companies, and liquidate"), while Sybil thinks about men: "You don't get them by being nice, you get them by shrewd cunning and device."

Berkoff's bruising homilies are wrapped uncertainly in couplets which fall apart and show different registers of language at work. The mix of the licentious and the lyrical makes *Decadence* – even ten years on – a disconcerting and troubling play. There is no love in the Berkoff world, no tenderness and no kindness: just violence and indecency. The language still shocks, and theatre still needs plays like this; but as long as Berkoff prefers the jemmy to the scalpel, his social dissections are apt to be messy, inexact and unpredictable.

Andrew St George

The Constant Wife

ENGLISH THEATER, FRANKFURT

O to see ourselves as others see us! Away from home, the charms of Maugham marital comedy are more quintessentially English than ever: artifice, repartee, dragon-fly grace. "A broad brim is such a bore in an open car"; "decency died with dear Queen Victoria": the German audience, by turns amused and bemused, stared at lines like these as if they came on scrolls unrolled from Mars. Yet director Martin Harvey's strength is to evoke, in intonation and pitch of phrase, in every glance and shade of countenance, in chic 1920s set and potent cheap music trilling between scenes, that baffling other world of British upper class life between the wars.

The Constant Wife recalls both Coward and Wilde. Though Maugham is neither as original or witty a satirist as Wilde nor as dramatically outrageous as Coward, he was a feminist like them and had a flair for the well-made play about wives deceiving their husbands and going scot-free. Harvey gives him the lightest touch. Adulterous couples hover round each other in swoons of politesse, sinewy bodies droop over art deco furnishings.

Individual finesses – Milton Cadman's distracted charm as the husband, Deborah Makepeace his shrieking frivolous mistress – are carefully delineated; good ensemble playing ensures that all share a repertoire of gestures and movements which suggest but do not absolutely confirm deceit. Harvey's cast accepts guilt, adultery, humiliation – anything to uphold the social fabric.

Fittingly in a play about keeping up appearances, costumes (Ursula Birkelbach) define character and make each scene change a visual treat: frilly pastel silks for mistress Marie-Louise; outsize cuts and colour clashes for gauche sister Martha (Jessica Carney); 1920s languid designer elegance for icy, controlled Constance.

On the development of Constance depends the humour and underlying seriousness of the piece. When Ethel Barrymore took the role at the 1926 opening, she fluffed her lines, included snippets from other plays and mixed up acts one and three. "Oh darling, I've ruined your beautiful play but it'll run a year", she told a furious Maugham afterwards. ("She had and it did", he used to say.) Here, Leslie O'Hara emphasises Constance's initial self-control, teases it into manipulation of her husband, while revealing at the same time the vulnerability that makes the character so attractive.

As she knocks a year off her age (to 35), fears for her last chance of love, refuses to deceive herself but still lets her vanity be touched, Strauss's Marschallin comes to mind. It is a beautifully modulated performance.

This is the first production in the newly refurbished home of Frankfurt's English Theater. Funded by the City of Frankfurt, it moved from fringe cafe-theatre last year to West End-style premises. Its repertoire of "typical" modern English and American plays this year is to include Shaffer's *Sleuth* and August Wilson's *Fences*, on this showing enticing prospects both.

Jackie Wullschlager

INTERNATIONAL

ARTS GUIDE

TODAY'S EVENTS

AMSTERDAM

Muziektheater 20.15 Dutch National Ballet in works by four Dutch choreographers: Rudi van Dantzig, Toer Van Schayk, Hans van Manen and Ted Brandsen. Runs till Oct 30, with next performances on Wed, Fri and Sun. Tomorrow, Thurs and Sat: *Il barbiere di Siviglia* (6255 455/credit card bookings 6211 211)

ATHENS

Concert Hall 20.30 Yehudi Menuhin conducts the Young Musicians Symphony Orchestra in an all-Mozart programme: the overture to Die Zauberflöte, the Symphony No 41 and Piano Concerto No 21, with Arnaldo Cohen. Repeated tomorrow (722 5511)

BERLIN

MUSIC

Staatsoper unter den Linden 19.00 Siegfried Kurz conducts Die Zauberflöte, repeated tomorrow. Fri: Carl Orff double-bill. Sat: Heinz Fricke conducts Tristan und Isolde. Sun: John Cranko's The Taming of the Shrew (East Berlin 2004 762)

Deutsche Oper 19.30 Franz Welser-Möst conducts the Ponnelle production of Fidelio, with Lisbeth Balslev as Leonore and *Klaus König* as Florestan. Tomorrow: Jose Carreras recital. Wed: La bohème. Thurs: Il trovatore. Fri: *Wolfgang Rihm's Oedipus*. Sat: Stravinsky ballets choreographed by Béjart and Balanchine. Sun: Lohengrin (West Berlin 3410 249)

THEATRE

East Berlin: this week's repertory at the Berliner Ensemble includes Mother Courage tomorrow, Galileo Galilei on Wed and a Kurt Weill *evening* on Thurs (2827 712). The Deutsches Theater has Kleist's The Broken Jug tonight and the Shakespeare/Heiner Müller Hamlet plays on Sat (2871 225), with Ibsen's Ghosts tomorrow and G.B. Shaw's Heartbreak House on Sat at the Kammerspiele (2871 226). The Maxim Gorki Theater has the Roma-Theater Pralipe production of Lorca's Blood Wedding on Thurs and Fri (2082 748).

West Berlin: the Schaubühne has Kleist's Amphitryon tomorrow, Wed, Sat and Sun, with Luc Bondy's production of The Winter's Tale on Thurs and Arthur Schnitzler's play The Lonely Road on Fri (890023). *The Schiller* Theater repertory includes Lessing's Minna von Barnhelm on Thurs and Goethe's Iphigenie auf Tauris on Sat (3195 236). The Renaissance Theater has Peter Shaffer's Amadeus, directed by Gerhard Klingenberg, daily till Oct 29 (3124 202)

BARCELONA

Gran Teatre del Liceu 21.00 Antoni Ros Marba conducts Jochen Ulrich's production of Salome, with a cast led by Susan Hinshaw, Florenza Cossotto and Manfred Jung. Repeated on Wed, Fri and Sun (412 1466)

CHICAGO

Lyric Opera *19.30 Samuel Barber's* Antony and Cleopatra. Richard Buckley conducts Elijah Moshinsky's new production, with a cast led by Catherine Malfitano, Richard Cowan and Jacque Trussel, also Fri. Wed and Sat: Le nozze di Figaro (332 2244)

GENEVA

Grand Théâtre 20.00 Ballet of the Grand Théâtre, directed by Gradimir Pankov, in choreographies by Christopher Bruce, Jiri Kylian and Kim Brandstrup. Also tomorrow, Wed and Thurs (212311). Fri in Victoria Hall: Armin Jordan conducts the Orchestre de la Suisse Romande in works by Debussy, Prokofiev and Roussel (292511)

LONDON

Covent Garden 17.00 Bernard Haitink conducts Götz Friedrich's *production of Siegfried, with Rene* Kollo, John Tomlinson, Ekkehard Wlaschiha, John Dobson and Gwyneth Jones. Tomorrow and Sat: Rigoletto. Thurs: Götterdämmerung (071-240 1066)

Royal Festival Hall 19.30 Andrzej Panufnik conducts the BBC Symphony Orchestra in his Fifth Symphony (Sinfonia di sfere). The rest of the concert, consisting of Sibelius' Pohjola's Daughter and Rakhmaninov's The Bells, is conducted by Alexander Lazarev. Tomorrow: Esa-Pekka Salonen conducts Berg. Wed: Mariss Jansons conducts The London Philharmonic. Thurs: Ashkenazy conducts the RPO. *Fri: Mahler's* Resurrection Symphony. Sat: Wynton Marsalis. Sun: Atlanta Symphony Orchestra (071-928 8800)

Barbican *19.45 Antoni Wit conducts* the Polish National Radio Symphony Orchestra in music by Sibelius, Chopin and Brahms. Wed: Dave Brubeck. Thurs: Tilson Thomas conducts Bernstein. Fri: Rattle conducts the CBSO. Sat: Colin Davis conducts Mozart (071-638 8891)

MILAN

Teatro alla Scala 20.00 Song recital by Renato Bruson, accompanied by Robert Kettelson. Tomorrow, Wed, Thurs, Fri: John Cranko's production of Romeo and Juliet. Sat and next Mon: Luciano Berio conducts the Orchestra of La Scala, with Jose Carreras (7200 3744)

NEW YORK

Metropolitan Opera 20.00 Leonard Slatkin conducts Giancarlo del Monaco's new production of La fanciulla del West, with a cast led *by Placido Domingo, Sherrill* Milnes and Barbara Daniels, also Fri. Tomorrow and Sat matinee: Don Giovanni. Wed and Sat evening: Die Zauberflöte. Thurs: Un ballo in maschera (362 6000)

PARIS

Opéra Bastille 19.30 Myung-Whun Chung conducts Jean-Pierre Miquel's production of Idomeneo, with Keith Lewis, Carol Vaness and Sylvia MacNair. Also Thurs and Sat (4001 1616)

Théâtre des Champs-Elysées 20.30 Carlo Maria Giulini conducts the Orchestra of La Scala Milan in Schumann's *Third* Symphony, Ravel's Mother Goose and Stravinsky's Firebird. Thurs: Inbal conducts *Mahler* (4720 3637)

Châtelet *20.30 Esa-Pekka Salonen* conducts the Ensemble InterContemporain and the Philharmonia Orchestra in a Berg programme, including the Violin Concerto played by Gidon Kremer. Tomorrow: Trio Fontenay (4028 2840)

STRASBOURG

Palais des Congres 20.00 Jonathan Darlington conducts Tobias Richter's production of Le nozze di Figaro, with a cast including Danielle Borst and Jean-Marie Frémeau, also on Thurs. Wed and Fri in Théâtre Municipal: Salieri's Tarare (8875 4823)

VIENNA

MUSIC

Staatsoper 20.00 La fille mal gardee. Tomorrow and Sat: Tannhäuser. Wed and Sun: Boris Godunov. Thurs: La bohème. Fri: *La traviata (51444 2960)*

Volksoper 19.00 La Cage aux Folles, also Fri. Tomorrow, Wed, Thurs, Sat and Sun: Béjart Ballet Lausanne in Maurice Béjart's new work Death in Vienna, with music by Mozart (51444 3318)

Konzerthaus 19.30 Richard Stolzman clarinet and Klaus Thunemann bassoon join the Artis Quartet for a programme of chamber music by Beethoven, Poulenc, Brahms, Steve Reich and Gottfried von Einem. Tomorrow: piano recital by Peter Serkin. Wed and Thurs: Rafael Frühbeck de Burgos conducts the Vienna Symphony Orchestra. Fri: Peter Eotvos conducts the Ensemble InterContemporain in the opening concert of this year's Wien Modern contemporary *music festival* (7124 6860)

THEATRE

This week's repertory at the Burgtheater includes Jurgen Flimm's production of Der Schwierige by Hugo von Hofmannsthal (tomorrow, Thurs and Sat) and a reading of Hofmannsthal's text for Der Rosenkavalier (Fri). The Akademietheater has Othello tonight, tomorrow, Thurs and Fri, followed by Botho Strauss' Schlusschor on Sat and Sun, directed by Hans Hollmann (51444 2218)

ZURICH

Opernhaus 20.30 Recital by Montserrat Caballe, accompanied by Manuel Burgueras. The programme includes songs by Stradella, Paisiello, Vivaldi, Rossini, Granados and Turina. Tomorrow: Der Rosenkavalier with Edith Mathis as the Marschallin. Wed and Sun: Bob Wilson's production of Lohengrin. Thurs: Eugene Onegin. Fri: ballets by Bernd Roger Bienert and Pierre Wyss. Sat: Il barbiere di Siviglia, (262 0909)

Kirche St Peter 19.30 Borodin Quartet plays Shostakovich's String Quartet No 15, and Quartets by Prokofiev (221 2283)

Tonhalle This week's events include a concert by Yuri Bashmet and the Moscow Soloists on Fri (261 1600) and a Zurich Chamber Orchestra concert on Sun, with Grigory Sokolov soloist in Mozart's Piano Concerto No 23 (252 1737)

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MONDAY TO FRIDAY

Eurosport
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0730-0800 Moneyline
1230-1300 Business Morning
1330-1400 Business Day
2000-2030 World Business Today – a joint FT/CNN production with a review of business stories
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0100-0130 Moneyline

Superchannel
2130-2200 (Tues) East Europe Report – weekly financial report from FTTV.
2130-2200 (Wed) FT Business Weekly - the latest round-up of business news with James Bellini and Debbie Middleton.
2130-2200 (Thurs) Talking Heads

Sky News
1200 International Business Report
1130, 1730, 2130, 0430, 0530 (Thurs) FT Business Weekly

SATURDAY

CNN
0730-0800 Moneyline
0900-0930 World Business This Week - a joint FT/CNN production
1540-1610 *Moneyweek*
1900-1930 World Business This Week
2110-2140 Your Money

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Superchannel
1800-1830 FT Business Weekly

Sky News
1330, 1630, 2030, 0030, 0230 FT Business Weekly

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0710-0740 Moneyweek
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Monday October 14 1991

The priorities of the G7

THE MEETINGS of the governors of the International Monetary Fund and World Bank are the one occasion of the year when economic development in the erstwhile Third World should be at the head of the policy-makers' agenda. It is not to be. The meeting of the policy-making Interim Committee of the IMF yesterday was overshadowed by the discussions of the group of seven leading industrial countries. These focused neither on the problems of the Third World, nor on co-ordination among the countries of the First World, but on the dire straits of the Soviet Union, recently the dominant part of the Second World. This concentration of attention comes at a price: neglect of matters that are far more amenable to successful G7 action.

"The ministers and governors recognised that the Soviet Union and the republics are confronting serious economic and financial problems." They did not need to go to Bangkok to reach this conclusion. When a former superpower is estimated by the IMF staff to be experiencing a 12 per cent decline in gross national product this year, when its total budget deficit is estimated at some 30 per cent of GNP, when the only limits on the prospective rate of inflation is the efficiency with which the printing presses are operated, it is certainly confronting serious problems. The question is whether solutions exist and, if they do, what role the G7 can play in finding them.

Clear commitment

The G7 has called for "the introduction of comprehensive economic reform programmes; the clear commitment by both the centre and the republic authorities to the timely servicing of all financial obligations; the establishment of an operational framework for fulfilling existing and future financial responsibilities of the centre and republics; and the full disclosure of Soviet economic and financial data." This is sensible enough, so far as it goes, as is the determination to concentrate on technical assistance, symbolised by the welcome given to the recent agreement on a Special Association with the IMF.

The insane over-centralisation of the Soviet Union has now created an equal and opposite political reaction in the form of a correspondingly powerful thrust towards decentralisation. Boris Yeltsin, has agreed to sign a treaty of economic union this week, but the significance of that event is far from obvious. He may not be able to deliver the other republics; he may not even be able to deliver Russia.

Comprehensive programmes of economic reform come from coherent states with coherent governments. When the Soviet Union had a government, most of its leaders did not wish to reform; and now that most of the leaders wish to reform, it no longer has a government. The G7 cannot hope to determine events in the Soviet Union. It should put its weight behind efforts to sustain inter-republican commerce. But it would be a serious mistake for the G7 itself to promote any particular political or economic solution, especially when reform is likely not merely to fail but to prove bitterly unpopular as well.

Undue attention

Fortunately, the G7 looks likely to avoid such errors. But it has not avoided the mistake of paying undue attention to the Soviet problem. This does not mean that more attention should have been paid to macroeconomic co-ordination, on which ideas circulating in the G7 remain confusing; that Japan's rising current account surplus should be reduced, even though the IMF emphasises the need to increase world savings; or that the yen should appreciate, even though the desire for lower world interest rates is as likely to bring it down

Debt relief is one area where more G7 action would have been desirable. The dire plight of many of the poorest developing countries, despite decades of concessional assistance, deserves a more generous response, though it also demands hard-headed questioning of the wisdom underlying much of that assistance.

Yet the most important issue for decision by the G7 is the completion of the Uruguay Round of trade negotiations within the General Agreement on Tariffs and Trade. Mr Arthur Dunkel, Gatt's director-general, has stated that texts must be completed by November 1 for government approval. It is time for governments – particularly, where agriculture is concerned, those of France, Germany and Japan – to be counted, as the Germans seem at last to have accepted. Either they will let the liberal international economy, which virtually all those represented in Bangkok now wish to join, continue on its remarkably successful way, or they will bring that 40-year process, so essential for past western success, to a premature halt. It is time for G7 leaders to face some difficult political choices at home instead of delivering complacent lectures about the need for painful economic adjustment abroad.

Renewing the Commonwealth

THE Commonwealth, that highly-diversified grouping of 50 former British colonies and dominions, long ago lost the central role it played in the affairs of its member states. Britain, once its undisputed leader, has progressively lost interest in the association, as the focus of its economic and foreign policies shifted to Europe. Yet in spite this, and the acrimonious debate over South African sanctions which has widened the rift between Britain and the other members over the past decade, not a single government has suggested that the Commonwealth should be given the *coup de grâce*.

The fundamental reason for this reluctance to wind up an organisation which no longer appears to have a clearly-defined international role is not only inertia. It is the deeply-held feeling in many of the member countries that their common history, language and, to some extent, culture, are a genuine justification for the continuing association. Sincere though these sentiments may be, they are not sufficient.

Unless the heads of government of the member states, meeting in Harare this week, can come up with some specific new common objectives and tasks, the organisation's future looks bleak indeed.

Propitious climate

The climate for such a constructive reappraisal of the Commonwealth's role is considerably more propitious than it has been for many years. President de Klerk's government in South Africa has made big strides towards the dismantling of apartheid, thus taking some of the sting out of the increasingly unrealistic sanctions debate which has dominated successive Commonwealth conferences.

That should allow much more time for a thorough examination of the priorities which the organisation's new secretary-general, Chief Emeka Anyaoku, has set for the Commonwealth. Having frequently proclaimed their attachment to democratic government, freedom of speech and human rights in general, one of the member states' first tasks must be to implement their own declarations. Joint steps should be taken to see these principles are respected. They could include technical assistance to those countries needing to strengthen their democratic institutions, an extension of the scheme for sending election observer missions to countries with nascent pluralistic political systems, and the creation of joint human rights monitoring missions.

Enhanced role

The role of the organisation in providing the less-developed countries with economic expertise and specialised training through the Commonwealth Fund for Technical Co-operation, could also be enhanced. In particular, it could demonstrate its concern for the future prosperity and stability for South Africa by implementing a proposed new programme for training black South Africans for jobs in the civil service and local government.

If, at the same time, the Commonwealth is able to adopt a genuinely co-ordinated position for next year's United Nations Conference on the Environment and Development, it will have gone some way to demonstrating that its continued existence is justified. But the prime ministers meeting in Harare will have to work hard to convince the sceptics and give the organisation the new international image which it so desperately requires.

Michael Skapinker and Steven Butler examine the impact of digital technology on photographic images and equipment

A picture of things to come

Imagine owning a pocket-sized camera which you could use to take a photograph, display it instantly on a high-definition television or a computer monitor, send it in seconds to colleagues or relatives anywhere in the world, and edit and manipulate the image before making a colour print on a desk-top machine.

It will be some time before you will be able to walk into your local camera shop and buy the necessary equipment. But already photographic, computer and electronics companies in the US, Europe and Japan are rushing to ensure that they can provide such cameras when the technology and price are right.

The key to these advances is the introduction of digital technology to the capturing, storage and transmission of images. Digital technology has already made a huge impact on another consumer market, the music industry, where the compact disc has largely replaced the vinyl record. The camera business has proved more resistant to the electronic revolution because the old-fashioned photograph provides a better quality of picture than the digital products that have been introduced so far.

As any photographer knows, however, traditional pictures have their drawbacks. They become tattered and faded and occupy large numbers of shoe boxes or photograph albums.

Hence the interest of photographic and electronics companies in coming up with something better. Digital images could be displayed, manipulated, stored, and transmitted with great ease and speed while bypassing the traditional darkroom and its complex chemistry.

The battle to provide a digital camera goes beyond the consumer market. Electronic cameras could be used by the publishing industry and by news photographers. They are also ideal for businesses and institutions ranging from estate agents to hospitals, where convenient storage, transmission and display is more important than achieving fine image resolution.

The digital still camera with the same number of pixels can take a photo with resolution twice that of a still taken off a video tape

Indeed, it is in the commercial and industrial sectors that the companies involved in electronic pictures expect to score their early successes. Many of those involved in producing the new cameras doubt that the traditional photograph will ever be completely replaced in the consumer market. Nevertheless, aspects of the electronic imaging system will soon be available to ordinary photographers.

The early attempts to introduce digital cameras were not encouraging. Sony's Mavica electronic camera, introduced in 1984, never took off because the image quality was too low and the price too high for ordinary consumers. In the past year, however, Toshiba and Fuji Film, both of Japan, have introduced digital cameras aimed at the business rather than domestic user.

As the world's largest film maker, Eastman Kodak of the US has moved to protect its market by announcing a product which combines traditional and electronic technology. Together with Philips, the Dutch electronics group, it is introducing a system which allows photographers to store pictures on a compact disc. These photographs can then be shown, and manipulated, on a television screen. Unlike the Japanese products, the product is aimed firmly at the mass consumer market.

While a broad consumer market for wholly electronic pictures remains on the distant horizon, the business and industrial market is already within grasp.

The first big sale of Toshiba's new system was to Japan Airlines, which is using digital transmissions over high capacity ISDN (integrated system digital network) phone lines to link aircraft maintenance workshops at different airports. A second opinion on a repair job can be had in seconds by relaying a still video image. The digital transmissions are replacing a crude system that relied on instant Polaroid cameras and fax machines.

Mr Sonosuke Togashi, manager of Fuji's electronic imaging products division, says his company made the mistake of following Sony's lead and launched an electronic product in 1985 aimed at consumers. Although sales were disappointing, Fuji did begin to establish a firm foothold in niche commercial markets – selling educational and image storage systems to dentists, construction companies, and hospitals. Mr Togashi does not see the digital system as a threat to makers of consumer film products, where users are interested in sharp images. He believes they will mostly be used by companies which need to distribute pictures to different sites or to customers.

Since the launch of its electronic imaging products six years ago, Fuji has sold 150,000 machines in Japan that can read images stored on floppy disk and display them on a video screen. Fuji has built the business on the back of a service of transferring negatives to floppy disks.

Mr Takeharu Niioka, senior manager of Toshiba's imaging and information systems division, takes a similar view to that of Mr Togashi. "We cannot imagine these products in household use," he says. "We will never replace chemical photography."

While this may be true, there is no doubt that electronic cameras will one day take over part of the traditional photography market and could limit its growth. In five years or so, electronic camera prices should fall to the several hundred pound threshold that puts them within reach of ordinary consumers. Fuji's recently-launched camera cost Y650,000 (£3,049.)

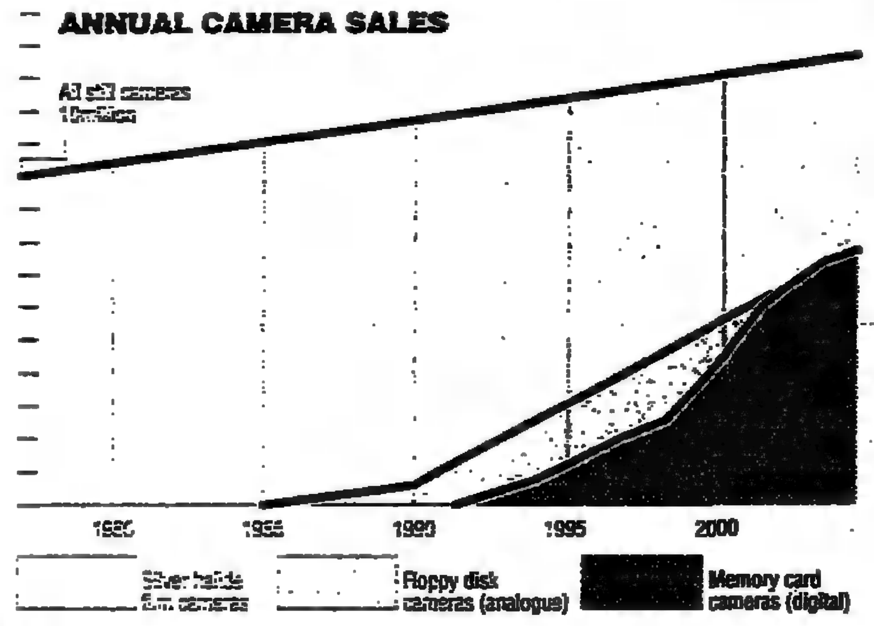
Some in the industry believe the traditional market will eventually stop growing and decline. Whether and how quickly that can happen depends on the development of four technologies:

● Charge coupled devices (CCD). CCDs are the electronic light sensing elements in hand-held video recorders. They will require substantial development before they can be successfully used for photographs. The digital still cameras and high quality camcorders use 1/3 inch CCDs that have 400,000 pixels – picture elements equivalent to grains of a photograph. The digital still camera with the same number of pixels can take a photo with resolution twice that of a still taken off a video tape. Even so, a 400,000 pixel photo looks hazy when enlarged, and cannot compare with the 30m plus pixels in chemical films.

Mr Togashi believes, however, that a 1/3 inch, 1.2m pixel CCD, equivalent to the standard for high definition television, should be available in five years. This would make the resolution high enough for many publishing uses, perhaps even some glossy magazines, although an obvious quality gap with chemical films will remain for big enlargements.

Fuji's Memory Card Camera

ANNUAL CAMERA SALES



Source: Toshiba

● Image compression. A single photo image, depending on the degree of resolution, can be translated into a prodigious amount of electronic information – enough to occupy an entire floppy disc, depending on how it is processed. In order to process, store and transmit the information efficiently, the electronic data must be compressed by using complex mathematical formulae and sophisticated integrated circuits. Fuji and Ricoh, the camera and office machine company, both claim some success in developing this technology.

● Storage. Fuji and Toshiba use integrated circuit cards containing S-Ram (static random access memory) chips. Unlike the more commonly-used D-Ram (dynamic random access memory) chips, S-Rams rely on ordinary battery or electric charges and do not require additional charges of electricity. The cards can be re-used indefinitely, and are less fragile than CDs. Toshiba's card has 18m bits of storage, accommodating 12 photos, while Fuji, using more sophisticated compression, can store 21 photos on an 8m bit card. They are, however, expensive. Fuji's memory card alone costs Y150,000 (£672).

● Printers. Development of high quality colour printers at a reasonable price is still some way off. This will probably force the industry to rely on services provided by commercial printers, much as colour negatives are now sent out for prints.

The flexibility of photo transmission also depends on increasing worldwide use of ISDN lines. Toshiba successfully transmitted a digital photograph from Berlin to Tokyo over ordinary telephone lines, but it took 20 minutes. Using an ISDN line, on the other hand, the transmission takes just 30 seconds for Toshiba, seven seconds for Fuji.

While Japanese companies explore the business and commercial market for electronic pictures, Kodak is attempting to ensure it does not get left behind. Both Kodak and Fuji are convinced the traditional photograph still has plenty of life in it. Even as digital technology moves forward, says Mr Togashi, chemical films will improve with faster speeds and even finer resolution.

Nonetheless, Kodak believes electronic technology will have a role to play in its traditional market – hence its joint project with Philips to develop a system for storing photographs on CDs.

Kodak will launch the photo CD next summer. It hopes widespread use of its product will establish a standard other companies will be forced to follow. "We want to establish our position in the market as the company that will specify the way images are put into digital form," says Mr Ravi Khanna, the UK-based Kokak product manager for photo CD.

The photos can be displayed by connecting a CD player to a television. Consumers will have the option of receiving a photo CD that holds 100 photos when they take film in for development. To see the pictures, the photographer will have to buy a new CD player, selling for between £300 and £400, which will play both audio and photo discs. The photo discs themselves will cost about £11, similar to the price of an audio CD. On the screen, the picture can be manipulated, using remote control to magnify parts of the photograph.

Mr David Mercer of BIS Strategic Decisions, a high technology consultancy, says that one of Kodak's difficulties will be creating a wide enough network of photo developing shops capable of transferring negatives to CDs. The equipment is expensive, although prices should eventually drop. He also questions the rationale for the new machines.

"You have to ask whether people will want to sit at home watching a still picture on the television when they can buy a camcorder for £500 and watch a moving picture instead."

The biggest danger for Kodak, however, must be that it will be sidelined technologically. While it is attempting to graft the CD on to existing photo technology, Japanese companies are selling both the cameras and entire image processing systems. These include not just storage on disc and integrated circuits, transmission and printing, but the use of CDs as well.

The expertise the Japanese companies gather could be used for products going well beyond photographs. Ricoh, for example, hopes to exploit its image compression technology not only in still cameras, but in video cameras, colour video telephones, colour facsimile machines and colour copiers.

Mr Togashi, at Fuji, talks speculatively about one day selling a whole camera the size of a card containing integrated circuitry, which would be little bigger than a credit card.

If consumers do decide they want to look at still pictures on their television screens, Kodak may preserve its traditional business from the ravages of digital technology.

Given the far-ranging nature of the Japanese companies' imaging ambitions, however, the worry for the west must be that it will miss yet again the development of a new industry with huge commercial potential.

Shooting the gospel bearer

■ The mighty Lord Hanson may be one of Britain's most feared corporate predators, but he still sounds a novice at dealing with his own public relations.

Weekend reports of his angry response to an intemperate article by an obscure hack come as the latest sign of his surprising sensitivity to ill-informed criticism. Great Captains of Industry should have thicker skins.

In the days when he hired Michael Shea, the Queen's ex PR man, Hanson seemed keener on getting his name in the society columns than in the financial press. But now he is concentrating on the latter, he seems to be having trouble getting value for money from his motley array of public relations advisers.

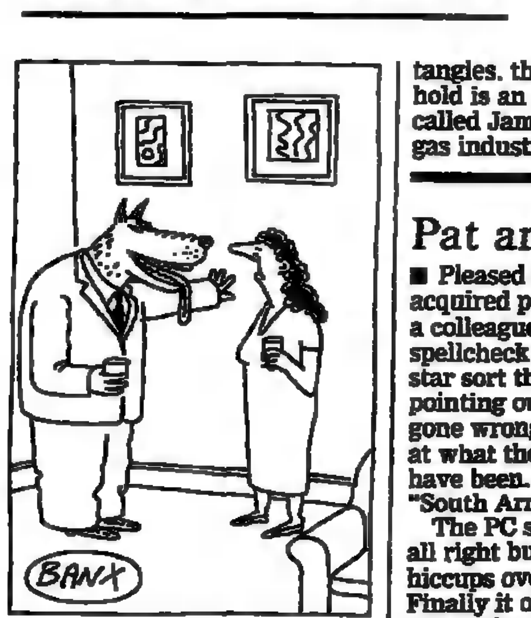
Indeed, his shrill rebuke of Sir Tim Bell, Mrs Thatcher's former image-doctor, says more about Hanson than the luckless Bell.

It is hard to imagine a top company with a less polished PR machine than Hanson's where even simple financial queries often have to be dealt with by vice-chairman Martin Taylor. And while Lord Hanson might not think much of Sir Peter Parker, whose son Alan is defending ICI, his rebuke is hardly the sort of thing one commits to a letter, even a confidential one. Better said over a glass of port at Brook's Club.

The question of who leaked Lord Hanson's irked epistle to Sir Tim Bell is less interesting than why it was leaked. Brian Basham, another Hanson adviser, says he has no idea. So does Alan Parker, a former Basham side-kick, whose own firm's reputation depends on how well it fights ICI's corner.

If there is any truth in the persistent rumours that Lowe Bell, Sir Tim's outfit, is thinking of getting closer to market leader Shandwick, then the leaked Hanson letter could be a spoiling tactic. Even a loose alliance of number one and two in the industry would create a force in the public relations business that would tower over the likes of rising stars like Parker and Basham.

OBSERVER



"Trust me – I'm a judge."

Biter bit

■ Talk about catching a Tartar!

Like many of British Gas's customers who happen to be out when the meter-reader calls, the Esher household found the resulting estimated bills for its consumption were off the mark. In its case the company was under-charging, and did so repeatedly despite being told four people now lived there instead of the one occupant of times gone by.

What's more, by the time British Gas caught up with reality, it had raised its prices. So it charged for the whole historic difference between estimated and actual usage at the higher rate.

The only trouble from its point of view was that, unlike most folk who get unavailingly snared in such bureaucratic tangles, the head of the household is an acerbic Scotsman called James McKinnon, the gas industry regulator.

Pat answer

■ Pleased with his newly acquired personal computer, a colleague decided to test its spellcheck – one of the five-star sort that, not content with pointing out where you've gone wrong, hazards a guess at what the answer should have been. The test phrase was "South Armagh".

The PC swallowed "South" all right but had several hiccups over the next bit. Finally it offered the suggestion: "Earmuff?"

Pepper up

■ A bit more point as well as pep may be injected into the regular meetings between economists from the UK Treasury and the groves of academe, now the London School of Economics' Professor Charles Bean has been made chairman of the Treasury's academic panel.

So far, the meetings between the two sides have been going on for over a decade with no obvious benefit to either. Although the academic participants sometimes get animated about such things as new developments in abstruse economic-modelling techniques, they tend to end up talking largely to one another. Meanwhile the Treasury participants are apt to say little at all, for fear of giving away government secrets.

Ex-Treasury man Bean, 38-year-old deputy director of the LSE's centre for economic performance, holds lively views albeit believing in no particular economic orthodoxy. He is also one of the few practising members of his trade in the UK to come over well on the telly.

With the first session under his presidency due on Friday, he says he wants to liven up the meetings and turn them into more of a broad forum for policy-making. Whether the Treasury will let him is another question.

Time out

■ Britain's small building societies can breathe easily for a few months. The Cheltenham & Gloucester, the building society with a seemingly insatiable appetite for its smaller competitors, is settling down for three uneventful months.

Chief executive Andrew Longhurst has put the society on hold for three months and is taking a sabbatical. After pushing C&G into number six position in the building society league table, Longhurst's move has astonished his staff though there are apparently no ulterior motives behind his move. "It is just that, a sabbatical, and nothing else," a C&G spokesman says firmly.

The sabbatical, marking Longhurst's 10th year as C&G's chief executive, was suggested to him by his board over a year ago, but remained a closely guarded secret to his staff until a fortnight before his departure. Longhurst will spend his three months off travelling in France and Germany with his wife. Last instructions to his deputy holding the fort at the society's giant Gloucester HQ were: "No initiatives."

Hearsay

■ With humour of any kind in perennial short supply, Observer was agog to hear a posh accent at the next lunch table say: "I'll tell you the latest sick joke." It went like this:

Seeing a bearded passenger in a turban sprawled across an empty row of seats, a stewardess on an Air India flight smiled and asked: "Are you relaxing?"

"No, Sohan Singh," he said.

Risky business may start to play safe

Robert Peston says 3i's flotation next spring is provoking concern over its investment horizons

There is an exception to the rule that British investors are too intent on making a fast profit. The exception is called 3i, the UK's leading provider of equity to small and medium-sized businesses.

3i provides long-term support to the companies in which it invests. Since being set up in 1945, 3i has invested in 11,000 companies, whose combined employees number 800,000 and whose annual sales are £50bn. It still has holdings in 5,000 of them.

"We have held on to shareholdings in well over 100 companies for more than 30 years," said Sir John Cuckney, 3i's chairman.

It is an example of the City taking a long-term view in a second sense. For 46 years, 3i's own shareholders, the English and Scottish clearing banks and the Bank of England, have not changed.

The paternalistic support of its bank shareholders has allowed 3i to provide equity and loans of long maturity – long-dated loan stock – to small and medium-sized companies without demanding a quick payback.

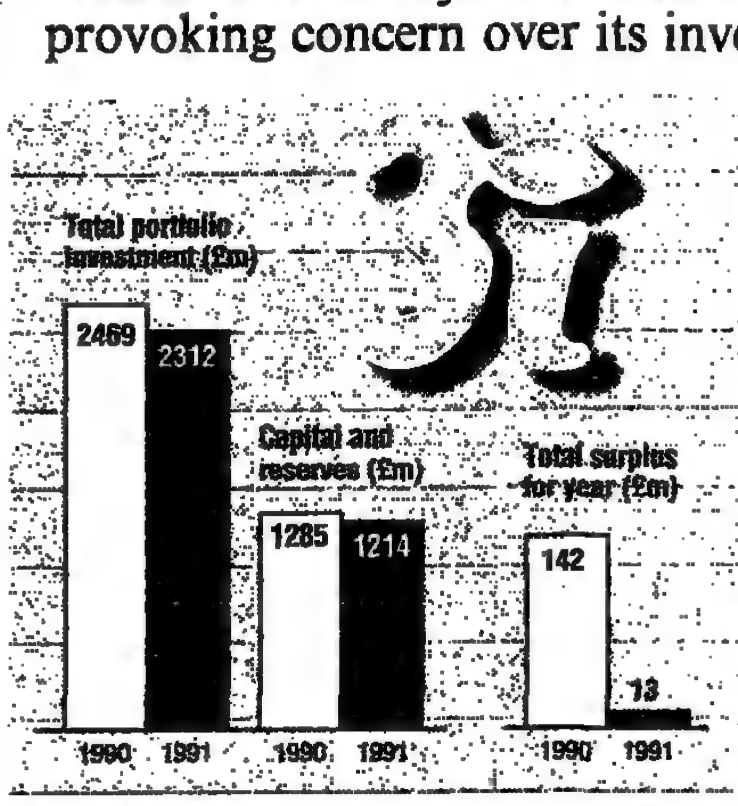
But those shareholders have at last decided to sell their holdings. The plan is for 3i to convert into an investment trust and be floated on the Stock Exchange in the spring. Most will dispose of all their shares, though National Westminster and Barclays will keep reduced holdings, of about 15 per cent and 10 per cent respectively.

"It is all of a piece with the clearing banks' disengagement from a series of consortium banks and joint ventures," said one shareholder. At the beginning of 1990, they sold Yorkshire Bank to National Australia Bank and they are also planning to sell the Agricultural Mortgage Corporation, possibly by a flotation on the Stock Exchange.

The reason for this withdrawal from joint ventures is that banks have become far more competitive. "We find it much harder to agree on a common policy for any business which we jointly own," said one bank shareholder.

3i's flotation was first mooted in 1984. Midland wanted to raise capital by selling its 17.6 per cent stake, because its balance sheet had been weakened by huge losses on its investment in Crocker National Bank, the California bank.

But just as the banks found it increasingly difficult to agree on how to manage their joint ventures, so they also disagreed on the best strategy for selling 3i. A flotation required 3i to change its articles of association and any such amendment needed the support of 75 per cent of shareholders.



VENTURE CAPITAL FUNDS Amount invested (£m)	1988	1989	1990
Independent private	491	465	345
Independent publicly listed	141	143	137
Captive bank	192	242	249
Captive pension fund	49	63	32
Captive other	21	73	94
3i	364	406	224
BES	22	16	11
Government	18	12	14
TOTAL	1298	1420	1106

Source: British Venture Capital Association

"In practice, flotation was impossible without a unanimous decision by the banks," said one shareholder. "But unanimity has been very difficult to achieve." If one bank pushed for a sale, to raise capital, another would try to block the flotation, believing it was in its own commercial interest to undermine the balance sheet of its rival.

But this year the negotiations on the sale of 3i took on a new urgency. All the banks' balance sheets have been weakened by hundreds of million pounds in provisions to cover possible losses on loans to both individuals and businesses. Midland and Lloyds, in particular, would benefit greatly from an injection of capital. A flotation of 3i could raise close to £200m for Midland and £150m for Lloyds.

The Bank of England also became keen to dispose of its 14.69 per cent holding. It is concerned that its responsibilities and interests as an owner may be in conflict with its role as 3i's regulator. But the Bank's main motive for selling is that it is convinced that 3i is now a successful commercial enterprise, capable of prospering without its support.

It helped establish 3i in 1946 as a contribution to the post-war reconstruction of Britain. 3i was then called the Industrial and Commercial Finance Corporation. It aimed to "fill the Macmillan gap": a reference to the former lord advocate, Lord Macmillan, who in 1931, as chairman of a Royal Commission on Finance and Industry, pointed out that small companies often had difficulty securing injections of equity or loan stock.

Competition from new venture capital companies forced 3i to re-examine its overheads

The commission proposed that a new investment company should be formed, which would act as an intermediary between small companies and the capital markets. The investment company would be big enough to raise capital through share and bond issues and would then inject the proceeds into small companies.

For the first 35 years of its existence, 3i expanded steadily, facing little competition. However, the economic climate changed radically in the last decade. Research by the business consultant Mr Graham Bannock shows that the number of UK businesses rose from 1.79m in 1979 to an estimated 2.9m in 1990. As a result, 3i has made 44 per cent of all its investments since 1980.

The venture capital industry mushroomed. In 1981, there were only 44 venture capitalists in the UK and in that year they invested £66m in 163 companies. By 1989, there were 124, investing a total of £1.42bn in 1,302 companies.

3i was no longer a virtual monopolist, but it still dominated the industry. In the same year, it made 743 British investments worth £497m and generated a total after-tax return for its shareholders of £231m.

But the competition from new venture capital investment companies forced it to re-examine its overheads. Staff numbers have been cut by 25 per cent over the past two years. Last week's casualty was Mr Derek Sach, who left his post as a group managing director in charge of UK investments after 19 years with the company.

In 1989, it began to "refocus on its core". It decided not to take on any new property developments and to sell all its properties over a period. A management consultancy service for small companies has been closed down and 3i has reduced its exposure to the most risky forms of investments, the financing of brand new or immature businesses.

Sir John Cuckney said that about 50 per cent of 3i's assets are in the form of "development capital" – sizeable investments in comparatively well-established companies. The funds are provided for projects whose profitability can be measured. "We look for an earnings stream from any investment," said Mr David Marlow, 3i's chief executive.

3i's expertise has always been in supplying finance, not in the active management of businesses. It takes minority stakes in companies and has no direct involvement in directing them unless they run into serious difficulties. There is no deadline for the sale of an equity investment. "Usually we realise the investment at the instigation of the customer," said Sir John. This abdication of control over when capital gains are made is what forces 3i to demand dividend payments from customers.

Much of the rest of 3i's investments are injections of replacement capital, or deals which involve it buying existing shares in a company rather than adding to that company's stock of assets. These deals – the most popular in the 1980s being the management buy-out – are also relatively less risky than providing start-up finance.

Mr Marlow said 3i would have concentrated on less risky customers, whether or not it was going to be floated. It has always aimed to be self-financing and not tap its shareholders for funds. The last time the banks put any funds into 3i was 1975.

There is no reason for 3i to become more risk averse, following flotation, according to Sir John. Its existing investment policy allowed it to come through the recession, which hit the small business sector particularly hard, in relatively strong condition. Its net assets fell only slightly from £1.28bn to £1.21bn in the financial year ending on March 31.

Small companies are, however, concerned that 3i's investment horizons may be shortened when its bank shareholders sell. 3i's new owners are likely to be life insurance companies and pension funds. Anxiety about whether they will be as farsighted as the banks, in their demands for returns from 3i, is understandable.

Samuel Brittan

Two nightmares before the world economy

Two rival nightmares are confronting world economy watchers: monetary slump and inflationary risks.

The evidence on the possibility of a monetary slump was presented in my Economic Viewpoint October 3. In a sentence it is that broad money supply growth in the Big Five industrial economies has slowed to a crawl. The article was predictably and gloatingly seized upon by some UK technical monetarists, who said "we told you so" in their earlier warnings about the deflationary impact of Britain's exchange rate mechanism membership.

Unfortunately such critics cannot tell the difference between a warning signal and a forest fire. There is an alternative interpretation of the monetary data. It is that the broad money supply is not a leading indicator, as monetarists had hoped, but a coincident one, which marches in time with economic activity and inflation. It slowed with the world economic slowdown and will pick up if activity recovers in line with International Monetary Fund and other mainstream forecasts.

Before dismissing this as a response from the followers of discredited forecasting models, we should remember that the impeccably monetarist US Shadow Open Market Committee resolutely refuses to panic. American monetarists can be more level-headed than some of their European opposite partners because they have got used to US states being in the same currency area and do not have to threaten deflationary or inflationary woe because Texas cannot devalue against California or because New York cannot follow an independent monetary policy.

The Shadow Committee argues that the velocity of broad money is not stable in the short term, and that it is usual for there to be little new bank lending in the early stages of recovery when US banks react to monetary ease by purchasing securities. They fear that further forced interest rate cuts by the Fed would constitute a serious inflationary risk.

My own objects in writing about the very low world monetary growth was neither to cry doom and gloom nor to peddle reassurance. The boy who cries wolf when there is no such animal around may one day turn out to be right. My intention was to raise a much more difficult question. If monetary growth continues to stagnate, it will not be due to a perverse squeeze by central bankers. It will reflect rather the reluctance of businessman and consumers – especially the US and Japan – to borrow more when they are already very worried about their indebtedness. It may also reflect over-extended investment in parts of the US (and perhaps British) service sector, as in the Austrian theory of the business cycle. Does it make sense to try to entice people to borrow against better judgment by rock-bottom interest rates and leaning on bank regulators to relax their prudential standards (as the US administration has been trying to do)? The question is not easy to answer. Unfortunately, neither the technical monetarists nor the fatalistic gloom and doom mongers get as far as asking it.

An antidote to monetarist gloom could be a more generous attitude to aid to former communist countries

Nor unfortunately do the authors of a new IMF Economic Outlook. They do, however, raise a legitimate worry of an opposite kind. This comes from additional investment demands in the 1990s from three sources. In order of magnitude, they are German unification, reconstruction in the other former communist countries and the rebuilding of Middle Eastern facilities. These potential new demands are estimated at $100bn a year, equivalent to 0.6 of the annual gross national product of the main industrial countries.

The IMF hopes that these pressures will be offset by the resumption of the trend towards budget balance in the industrial world once world recovery gets into its stride. If corrective fiscal action is not taken, the IMF fears that world real interest rates will be nearly half a per cent higher than otherwise necessary (and nearly 1 per cent in the case of Germany). Between the lines, it is obviously concerned that the effect will be larger and that the leading nations may react to these pressures with excessive monetary ease. Thus the danger would be of inflationary rather than deflationary pressures.

Unfortunately we cannot just hope that the rival deflationary and inflationary threats will just offset each other. But thinking of them together, the germ of a policy idea emerges. If the monetary alarmists turn out right, might it not be sensible to inject extra demand by a fairly generous attitude to claims for help from central and eastern Europe and the former Soviet Union. Such structural and investment aid might be a more secure basis for world recovery than forcing more credit on overborrowed western companies in the service sector.

My personal criticism of the unnecessarily high budget deficit in the west, and especially in the US, is that it makes the fiscal weapon unusable on the rare occasions when there really is a wolf at the door in the shape of a threat of slump. The advantage of help for the former communist countries is that financial markets may see it as a once-for-all call on resources. Much of it, incidentally, could be placed "off-Budget", for instance by encouraging low interest credits from the private sector or by using the IMF's own resources.

If there turns out to be no wolf and no slump threat then a more orthodox appraisal of aid requests would be in order. We do not have to apologise for taking the state of the west's own economy into account in deciding how much help to provide, and on what terms, for the former communist countries.

LETTERS

Channel rail link: welcome reflection of London development strategy, but massive bottleneck beckons

From Mr Martin Simmons.

Sir, Your conclusions regarding Malcolm Rifkind's announcement of the Channel Tunnel rail link ("Undermining the tunnel", October 10) are too pessimistic and short-term as regards the benefit of the choice to the London region.

We must look to the situation in London in 2000 and beyond, and not the London of the 1990s. Our vision of the capital's development is an "eastern sunrise", reversing the tide of modern history which has attracted growth westwards from central London to an extent which is no longer sustainable. East of the centre we have capacity for new growth based largely on the recycling of previously urbanised land. It is starting with Docklands, but the opportunities extend through eastern London to north Kent and Thurrock in Essex. The realisation of this vision of an eastern development corridor pointing at continental Europe requires new transport infrastructure, both local and international, to create the highest levels of accessibility in the London region and so attract investment and development.

Do not assume, because there was a growth in commuting to central London during the 1980s, that this will occur in the future. There will continue to be much redevelopment at the centre, but the emphasis will be on quality, and lower employment densities. I expect that, overall, the number of jobs there will start to decline. The growth in employment, and the future stimulus to commuting, will be in the east. It is beginning with Canary Wharf, and the demand for staff will continue as the opportunities at Stratford and down-river are taken up by business parks and leisure schemes. While there is likely to be much new housing in the developments, an advantage in attracting job growth this side of London is that new firms can also draw on areas such as north and east Kent with capacity to provide new staff.

The London Planning and Advisory Committee has been arguing for the choice of route to reflect the development strategy for the London region. Let us, therefore, welcome a transport decision which is taken on strategic and not pure transport criteria. Let us be thankful that it will underpin London's future prosperity as a world and capital city in the new Europe.

Martin Simmons,
chief planner,
London Planning and Advisory Committee,
Eastern House,
8-10 Eastern Road,
Romford RM1 3PN

From Mr Alan Cornish.

Sir, The government's decision on the Channel Tunnel rail link route must surely call into immediate question current plans for the A12 (Hackney Wick to M11 Link Road) improvement. Construction is due to start within six months.

When finished, this will be *the only trunk road to connect* Stratford – with its existing Freightliner Terminal and relocated Spitalfields Market at Hackney – to the M11/M25, and the national trunk road network. Yet this "improvement" would have only *two* lanes in each direction, and *no* hard shoulders. And the Wanstead section is to be built in a series of tunnels and cuttings, so later widening would be virtually impossible.

In that context it was heavily criticised by objectors through successive public inquiries on grounds of under-capacity. Now, with the proposed addition of an international passenger-rail terminal at Stratford, plus reserve rail capacity for two further lines for freight, the under-capacity of this key road is critical. Surely to proceed with building such a massive bottleneck would be totally ludicrous.

Alan Cornish,
director,
Afco Associates,
21 Tennyson Ave,
London E11 2QN

Oxfam's 'positive' response

From Mary Cherry.

Sir, Ironically, the day Ansel Harris's letter was published (October 10) criticising the recent inquiry into Oxfam's political activities, the International Monetary Fund warned the international community of the desperate plight of 30m people facing starvation in Africa.

Oxfam and other agencies have long been urging the need for a greater response to the famines in Africa, drawing attention to what we believe are the underlying causes of this level of want. Unless these underlying causes are tackled then the 1990s could easily become the "decade of disasters" predicted in our recent "Fairer World" report.

Oxfam's trustees have responded positively to the Charity Commission inquiry and co-operated fully with it. Those specific activities which the inquiry found unacceptable have been discontinued. The chief charity commissioner has, however, clearly stated: "It is not the intention of the law, nor the business of the courts and the Charity Commission, to staunch the contribution of charities to public life. . .Charities have a wealth of knowledge and experience to bring to bear on the solution of problems and not solely on their treatment".

For those facing famine in Africa and desperate poverty elsewhere in the world, agencies such as Oxfam can mobilise immediate relief and support longer-term development projects. But our long experience of this work indicates that our role as witness and subsequently catalyst to action by the wider international community is often the only effective action in the face of such enormous odds. We welcome the recognition by the Charity Commission of this vital role and clarification of where the appropriate boundaries lie for permissible activities by charities in this difficult area.

Mary Cherry,
Chair,
Oxfam,
274 Banbury Road,
Oxford OX2 7C

Components of Albright & Wilson's discharges

From Mr J A Pickup.

Sir, Mr Sawyer's high-minded censorship of Albright & Wilson's effluent discharge at Whitehaven (Letters, October 10) stands incongruously alongside the antics of the 23 Greenpeace activists who "attacked" our installation on September 11, generating several hundred thousand pounds of damage and causing considerable danger to our plant operators and themselves in the process. They have been remanded to appear in court on a charge of criminal damage on November 7.

The Albright & Wilson process discharges naturally occurring components in the mineral phosphate rock back into the sea. The composition of the feedstock ensures that the overall load to the environment from the effluent cannot exceed the total quantity of heavy metals prescribed in the legal consent. In fact, in 1990-91, we have discharged less than 75 per cent of our permitted level in the consent. All Greenpeace demonstrated in the recent court case was that it was possible to gather an unrepresentative sample from the outlet pipe at a single point in time.

Mr Sawyer's reference to consent exceedences on 70 per cent of occasions relates, as Greenpeace well knows, to higher concentrations of metals because we were using less water at the request of the authority which controlled our discharge; no more metals – just less water with them – and no greater environmental impact.

Albright & Wilson has developed a process that will largely eliminate the discharge of heavy metals into the Irish Sea during 1992. Nothing that Greenpeace can do will speed this project up. We must hope that it will not attempt to do anything which could slow it down.

J A Pickup,
corporate affairs manager,
Albright & Wilson,
PO Box 3,
210-222 Hagley Road West,
Oldbury,
Warley,
West Midlands

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

FINANCIAL TIMES
Monday October 14 1991

Kohl calls for end to racist violence

By Quentin Peel in Bonn

RACIST ATTACKS against immigrants and asylum seekers flared up across Germany again at the weekend, as last week's cross-party compromise on tackling the problem appeared to be falling apart.

German chancellor Helmut Kohl issued his strongest condemnation yet of violence against foreigners, saying the actions were "a shame for our people". Yet his criticism was still tempered by an insistence that the real problem lay in abuse of the country's liberal asylum laws, and he merely described the attackers as "fools and criminals".

Several state governments, both rightwing and leftwing, indicated that they were unwilling or unable to implement plans for speeding up the processing of asylum applications to six weeks, and for rehousing would-be immigrants in mass collection camps. They include conservative Bavaria and Baden-Württemberg, and the Social Democrat (SPD)-Green party coalitions in Hesse and Lower Saxony.

At the same time last week's compromise has failed to defuse the political row over the issue. Mr Kohl's own Christian Democratic Union (CDU) has now formally made its demand for a change in the German constitution to limit the right to asylum. That would give border guards the right to turn back asylum-seekers from countries "where there is indisputably no political persecution", according to Mr Wolfgang Schäuble, the interior minister, who announced the plan.

The SPD has for its part flatly rejected any constitutional amendment which would "amend, undermine or abolish" Article 16, granting asylum, according to Mr Björn Enghölm, the party leader. His predecessor, Mr Oskar Lafontaine, said at the weekend the immigration compromise was "extremely fragile", warning that it failed to tackle the biggest problem, immigrants from eastern Europe claiming German ancestry – the so-called Aussiedler.

One reason why Germany currently has so many asylum-seekers – 200,000 are expected this year alone – is that it allows no regular immigration, except for Aussiedler with a German background. There were almost 400,000 Aussiedler last year, all enjoying animmediate right to work.

The worst attack at the weekend was on a building in the Bavarian town of Immenstadt housing seven asylum-seekers. A gang of skinheads broke into the house and started a blaze which destroyed the building.

Two of the inhabitants were seriously injured, one breaking both legs attempting to jump from an upper floor. Three firemen were also injured fighting the blaze.

There were several attacks in the industrial areas of North Rhine-Westphalia, including two unsuccessful attempts to burn immigrant hostels. Professor Hans-Dieter Schwind, chairman of the government commission on violent crime, warned of a rising spiral of violence, not only with gangs imitating racist attacks across the country, but with immigrants resorting to violence to defend themselves.

Croatian authorities reimpose blockade on barracks in Zagreb

EC relief convoy reaches Vukovar

By Judy Dempsey in Vienna and Laura Silber in Belgrade

A EUROPEAN Community-led convoy carrying humanitarian aid to Vukovar, eastern Croatia, yesterday succeeded in negotiating safe passage to the besieged city after Serb reservists and federal army units shelled and completely destroyed nearby villages.

The convoy was part of a ceasefire accord agreement last week between EC monitors in Zagreb, the capital of Croatia, the Yugoslav federal army and Croatian forces.

The accord also stipulated that Croatian forces lift the blockade on the Borongaj barracks in Zagreb. Both conditions should have been fulfilled on Saturday evening.

But the Croatian authorities, angered by attacks on the humanitarian convoy, reimposed their blockade on the barracks on Saturday night after allowing one of the military convoys to withdraw from the republic into the neighbouring central Yugoslav republic of Bosnia-Hercegovina.

The attacks on the convoy clearly indicate that any orders given by General Andrija Raseta, deputy commander of the federal army's Fifth Military District in Croatia are either being ignored, or are not filtering through to the local level.

"There are extreme groups, on both sides, who are waging their own war against each other in the republic," an EC monitor said. "These fanatical groups are not interested in peace. The hatred is now very deep. This convoy has been caught in the middle," he added.

A Yugoslav soldier takes cover during gunfire in Pakrac, Croatia

Meanwhile, the United Nations yesterday started a fact-finding mission to Yugoslavia in an effort to find some solution to the crisis. Mr Cyrus Vance, the former US secretary of state, held talks with Mr Ante Markovic, the federal prime minister, who now wields no authority or influence.

Mr Markovic has twice failed to obtain the resignation of Mr Veljko Kadijevic, the federal defence minister. A statement by Yugoslavia's federal government yesterday said Mr Vance "was interested in hearing about the genesis of the Yugoslav crisis and about the programme of reform carried out..."

Four back Hill claim against Thomas

By Lionel Barber and Reuter in Washington

FOUR acquaintances of Professor Anita Hill, the former aide who has accused US Supreme Court nominee Judge Clarence Thomas of sexual harassment, said yesterday they first learned of the incidents from her a decade ago.

"She told me she was being subjected to sexual harassment by her boss. That boss was Clarence Thomas." Ms Susan Hoerchner, a workers' compensation judge in California, told the Senate judiciary committee in describing a call from Prof Hill soon after Ms Hill became an assistant to Judge Thomas in 1981.

"Anita said Clarence Thomas had repeatedly asked her out. She told me she had of course refused. She said he wouldn't take no for answer," said Ms Hoerchner.

Similar statements were made by Mr Joel Paul, Ms Ellen Wells and Mr John Carr, who knew Prof Hill in differing capacities.

Their testimony came on the third day of the committee's investigation into allegations by Prof Hill against Judge Thomas, which he has categorically denied.

Judge Thomas's supporters were due to address the committee later yesterday.

Prof Hill, now working at the University of Oklahoma, told the committee last Friday that Judge Thomas had tried to date her while he was her boss at the US Education Department and the Equal Employment Opportunity Commission in the early 1980s.

When she refused, Prof Hill testified, Judge Thomas harassed her with descriptions of explicit pornography. Judge Thomas has called the hearings a "high-tech lynching".

Prof Hill's allegations forced the Senate to reopen hearings on Judge Thomas's nomination and delay a vote on his confirmation to the nation's highest court until tomorrow.

Shortly before the hearings resumed yesterday, President George Bush said he expected the judge to be confirmed.

Earlier yesterday, a call for a review of the confirmation process for the appointment of senior public figures came from Senator George Mitchell, Democratic majority leader.

He said the Judge Thomas hearings had contributed to declining confidence among Americans in their political institutions.

A new low in melodrama, Page 2

Indexed bonds: a hedge against deflation

By Anthony Harris

THIS column will try to persuade you to consider what looks at first sight a quite bizarre proposal; but first, two straws in the wind. The American delegation in Bangkok has been murmuring gloom since it arrived, and now US Treasury secretary Nicholas Brady has made it official: in the US view, the IMF forecast of 2.5 per cent world growth next year looks over-optimistic.

"We should be on a guard against disappointment," he says, speaking no doubt from experience. This is surely the first time that the economists of the IMF have been accused, even provisionally, of taking a rose-tinted view; but the American figures for stagnant retail sales, and the dire warning about both US and British prospects from Ford Motor, make Brady's warning sound like commonsense.

It also seems to be the business view; for CitiCorp, America's biggest bank, cut the rate on its NOW accounts (interest-bearing checking accounts) to a bare 2 per cent last week. This must make some grey-heads nostalgic, and younger readers may be surprised to discover that there is any such thing as a 2 per cent rate of interest. It is certainly not the kind of return offered by a bank gearing up for expansion.

There is nothing new, of course, about warnings of stagnation or worse. We have heard them for some years from believers in the Kondratieff wave and other eccentrics; more recently, the more robust monetarists have joined in, and now quite a large herd of bears recommend a switch out of equities into bonds. All the same, the bearish case deserves closer attention than most people have yet given it when it appears to have the White House behind it.

For British investors, it is possibly a double hit. The economy may follow the US path to a series of false dawns, which implies a sharp downward revision of the profit forecasts which sustain the equity market: if it does, there is a clear political implication: a hung parliament, or perhaps a Labour government. In the short run, this looks threatening for equities (though in the longer run, Labour governments have usually been good for industrials); it hardly looks like a buy signal for gilts, either.

This implied threat looks like a purely British dilemma. However, if you restate in purely economic terms – a really bad recession could bring in a potentially inflationary regime – you are talking internationally. Already, the Spaniards accuse the US of a potentially inflationary monetary policy (another first, surely), the Bundesbank is at loggerheads with the chancellor, and the Soviet Union is visibly turning into the biggest fiscal hole in the ground in economic history. If things get worse in the west, and especially if the financial system is seen to be tottering again, anti-inflationary caution may very suddenly go out of fashion.

Any government which feels that the market is doing less than justice to its anti-inflationary intentions could try this good-faith guarantee

HOW can you hedge both against prolonged deflation and renewed stagflation (here defined simply as a situation in which governments burn money to keep warm)? Bonds will hardly do, and only the most defensive of equities would begin to qualify; but the British investor has another possibility – indexed government bonds. The suggestion was made by Roger Bootle of Midland Montagu, in a seminar to launch his up-dated book on indexed. The point was so unexpected that all his audience seem to have missed it. Indexed gilts have been a terrible holding in the 10 years since they first appeared; it is hard to get anyone to listen to a case in their favour.

If one thinks about it calmly, though, it is pure logic. What we may call the Brady case is that real growth may be stuck well below 2.5 per cent annually, and possibly down to the 19th century norms of 1 to 1.5 per cent – for a long period. (A prudential, CitiCorp-style crunch, which is what the White House fears, could endure for as long as it takes to reconstruct the balance sheets of the English-speaking corporate world.)

In such a world, the guaranteed real return of 3.5 per cent now obtainable in indexed would be highly attractive. Further, if real interest rates fell in such a recession, indexed, with their low running return, would show a geared-up price response; they do not, except in the short run, respond to falling inflation, but are more sensitive than conventional bonds to changes in real rates. If real rates fell while inflation rose (the stagflation possibility), indexed would give double protection.

In fact, indexed cover the middle ground of possibilities; they would lose only at the extremes - either a depression leading to falling prices (the bondholders dream scenario), or a solid, sustainable growth recovery. The worst possible scenario for them is one of falling inflation and rapidly rising profits and asset values – precisely the circumstances of their first decade. But as Bootle points out in his book, the early investors could not foresee this. They could only job backwards: and if indexed had been issued in 1962 instead of 1981, they would have outperformed equities two-fold in their first two decades. That is why they were initially subscribed at a yield of only 2 per cent. Never again, perhaps.

Two classes of readers in less experimental countries may be feeling jealous by now: investors, who are not offered such a versatile hedge; and governments, who have not secured the huge savings the British treasury has made in the last decade (for conventional bonds have paid nearly twice in real terms as much as indexed).

But perhaps the habit will spread. Any government which feels that the market is doing less than justice to its anti-inflationary intentions could try this good-faith guarantee with advantage (for instance Italy, Spain and, indeed, Germany). And in the US, the case persuaded a lot of senior officials, notably Beryl Sprinkel and Michael Darby, in the early 1980s. Ed Guay (of Signa, the Hertford, Conn, money managers), who ran a private-sector lobbying effort, tells me that the final veto came not from the official side, but from a threatened market maker, Salomon Brothers. Again, never again.

Economic model review

By Peter Marsh in London

THE UK Treasury may contract out to the private sector the task of updating its computer model of how the economy operates – an important part of the government's economic forecasts.

Implementing this plan would give the Treasury's economics team more scope to concentrate on other aspects of economic policymaking, such as the implications of stronger links with the rest of Europe.

By introducing the Treasury to new ideas on how to analyse economic change, the move would also answer criticism that the Treasury has failed to do enough research in areas such as the impact of changes in financial liberalisation.

In particular, the Treasury has been criticised for failing to forecast both the 1986-88 economic boom and the recession which followed.

It is a key component in the Treasury's forecasting exercises, the results of which are published twice yearly.

Under the most radical option the Treasury model, which is more than a decade old, would be scrapped entirely and the Treasury would contract outside forecasters to provide economic modelling services.

The leading candidates would be independent forecasters such as the London Business School and the National Institute for Economic and Social Research, which have their own models.

A less radical approach, would be to maintain a separate Treasury model but to augment it with software provided from outside forecasters.

Observer, Page 16

EC nears agreement on energy tax to combat global warming

By David Gardnerin Amsterdam

EC ENVIRONMENT ministers reached what Brussels officials described as "a turning point" in Community environment policy over the weekend by accepting in principle the European Commission's plan for an energy tax to combat global warming.

This green light for Brussels to bring forward a draft directive must be formally agreed by a joint environment and energy ministers' meeting in December, and would then probably require the assent of EC finance ministers.

But the weekend agreement, at an informal EC environment council in Amsterdam, already follows last week's provisional approval by the council of the Twelve's finance ministers.

Mr Carlo Ripa di Meana, EC environment commissioner, said with some relief that "no minister has said the idea is unacceptable, or that they cannot go along with it". He hailed "a turning point in environment policy."

Brussels wants the Twelve to rebalance their tax systems to impose a tax equivalent to \$10 on a barrel of oil, rising from an increase of \$3 from 1993 by \$1 a year to 2000. The aim is to help the EC meet its commitment to stabilise carbon dioxide emissions at 1990 levels by 2000. Half the new tax would be on the CO_2 content of fossil fuel and half on all non-renewable energy, to even the burden and promote energy efficiency across the EC.

The tax, to be levied by member states, should be fiscally neutral, offset by tax cuts in other areas. The opposition of energy intensive industries such as petrochemicals and steel should be blunted, Brussels officials say, through the offer of exemptions until EC trading partners such as the US adopt equivalent regimes.

Mr Ripa di Meana said there was now every chance the EC could take a "legal and binding commitment" to reduce CO_2 emissions to next June's world climate conference in Rio de Janeiro, which he said "might convince the Americans." The US – responsible for 23 per cent of world CO_2 emissions against 13 per cent from the EC – has refused to commit itself to cutting emissions and eschewed fiscal weapons as a means of doing so.

G7 will sustain help to Soviets

Continued from Page 1

making Interim Committee, Mr Theo Waigel, Germany's finance minister, said German contributions to the Soviet Union – in the form of grants, credits, guarantees and other financial instruments – had added up to 2.5 per cent of gross national product since 1989. Germany was "at the limits of its capacity" to help, he said. He urged western nations outside Europe to contribute to a global and fair sharing of burdens.

The meetings took up two days of an unprecedented three-day G7 meeting. Although they ended without hard financial decisions, Mr Norman Lamont, the British chancellor, and other G7 ministers, hailed the talks between the G7 and the representatives of the Soviet Union and the republics as "historic".

Mr Alan Greenspan, the chairman of the US federal reserve, said the Soviet Union was providing economic data to the west "at a level of detail that is unprecedented".

Mr Grigory Yavlinsky, the young, radical economist who is now in charge of the Soviet economy, on Friday gave details of the agreement of 10 republics to sign a treaty setting up a "new economic area".

He stressed that the G7's involvement with the Soviet Union legitimised the very painful process of reform.

Mr Waigel said Mr Yavlinsky assured the group that the time was politically ripe for reform. "The Soviet people have accepted – rather like the German people at the end of the 1940s – that they must push through large-scale reforms," he said.

A statement issued after the meeting listed four essential conditions that the Soviet Union and republics must meet. These were:

- the introduction of comprehensive economic reform programmes;
- a clear commitment to the timely servicing of all financial obligations;
- the establishment of an operational framework for fulfilling existing and future financial responsibilities of the centre and the republics;
- and the disclosure of Soviet economic and financial data.

The Soviet representatives requested a continuing dialogue with the G7.

Chernobyl accident

Continued from Page 1

energy minister said that independence, and the consequent increase in the price of Russian oil to world level, might force the Ukraine to continue operating its nuclear reactors.

Mr Shcherbak, who was an anti-nuclear activist in the aftermath of the first Chernobyl accident, assured Ukrainians that no new radiation had been released by the fire. But he also said this accident would create tremendous political pressure to shut down Chernobyl and other nuclear reactors altogether.

The fire broke out on Friday night and was completely extinguished at 2am on Saturday.

WORLDWIDE WEATHER

		°C	°F
Ajaccio	T	20	68
Algiers	F	27	81
Amsterdam	C	13	55
Athens	S	23	73
Bahrain	S	32	90
Bangkok	C	32	90
Barcelona	F	22	72
Beirut	T	26	79
Belfast	C	13	55
Belgrade	R	17	63
Berlin	R	11	52
Biarritz	F	19	66
Bombay	S	31	88
Bordeaux	F	15	59
Boulogne	R	13	55
Brussels	S	16	61
Budapest	F	19	66
Buenos Aires	F	29	85
Cairo	S	28	82
Cape Town	S	25	77
Caracas	C	28	82
Casablanca	C	18	65
Chicago	S	1	34
Cologne	C	12	54
Copenhagen	S	15	59
Corfu	F	21	70
Dallas	S	15	59
Dublin	R	12	54
Dubrovnik		–	–
Edinburgh	C	13	55
Faro	S	20	68
Florence	C	15	59
Frankfurt	R	13	55
Geneva	F	15	59
Gibraltar	F	19	66
Glasgow	C	13	55
Helsinki	S	12	54
Hong Kong	F	27	81
Innsbruck	F	19	66
Inverness	C	12	54
Islamabad	F	27	81
Istanbul	S	19	66
Jakarta	F	32	90
Jersey	F	13	55
Johannesburg	F	22	72
Lima		–	–
Lisbon	C	17	63
London	S	16	61
Los Angeles	S	19	66
Luxembourg	F	13	55
Madeira	C	21	70
Madrid	C	14	57
Majorca	F	23	73
Malaga	S	20	68
Malta	F	27	81
Manchester	S	15	59
Manila	F	33	91
Melbourne	F	17	63
Mexico City	C	22	72
Miami	S	19	66
Milan	C	18	64
Montreal	F	3	37
Moscow	C	10	50
Munich	C	16	61
Nairobi		–	–
Naples	F	22	72
Nassau	C	30	86
New Delhi	S	31	88
New York	F	10	50
Nice	S	19	66
Nicosia	T	27	81
Oporto	R	14	57
Oslo	C	10	50
Paris	S	18	64
Peking	C	15	59
Prague	C	15	59
Reykjavik	Sl	3	37
Rhodes	S	24	75
Rio de Janeiro	F	30	86
Rome	F	23	73
Salzburg	F	15	59
San Francisco	S	12	54
Seoul	S	23	73
Singapore	F	30	86
Stockholm	C	11	52
Strasbourg	C	15	59
Sydney	F	21	70
Taipei	F	29	84
Tangier	F	19	66
Tel Aviv	C	29	84
Tenerife	F	25	77
Tokyo	F	23	73
Toronto	F	4	39
Tunis	F	28	82
Valencia	S	21	70
Venice	S	19	66
Vienna	F	20	68
Warsaw	C	13	55
Washington	F	10	50
Zurich	R	12	54

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Monday October 14 1991

INSIDE

Nova cuts payout to pay for expansion

Nova of Alberta has cut its quarterly dividend by more than half and delayed plans to hive off its gas pipeline and chemicals businesses into two separate companies. Nova said the cut in the dividend, from 13 cents to 6 cents a share, was needed to conserve cash for the costly expansion of its pipeline network in the face of the weak petrochemicals market. Page 19

UK link for Pittsburgh airport

The English accent of Mr Michael Bell of BAA, the privatised former British Airports Authority, is a sharp contrast to the mid-Western drawl of the people surrounding him in the new $600m-plus Pittsburgh airport complex now being built. The site, still a morass of dangling wires, concrete slabs and general construction debris, is where BAA has tendered for, and won, a contract to handle the retail space and poster sites. Page 18

Some sort of solution

As the first round closed in an auction for Executive Life of California, the seized Los Angeles-based insurer, "some sort of solution" seemed an appropriate phrase. On the one hand, a respectable number of "bids" – eight in all – had been submitted by the deadline, and policyholders' prospects looked better than six months ago. But on the other, the quality of certain proposals seemed in doubt. Page 19

Alliance rumours scotched

Invergordon Distillers, the Scotch whisky group facing a £350m hostile bid from Whyte & Mackay, the UK drinks arm of American Brands, denied it was considering cross-shareholdings with any group to keep its independence. Page 18

Waiting for action

The hope of action on several bond-sensitive economic issues brought the international bond market to an abrupt halt at the end of last week as participants waited for the outcome of G7, IMF and related meetings taking place in Bangkok. Page 21

Market Statistics

Companies in this issue

BAe steps up cash call campaign

By Norma Cohen, Investments Correspondent

BRITISH AEROSPACE's chief executive plans a whirlwind tour of institutional shareholders over the next two weeks to drum up support for the company's £432m ($743m) rights offer.

On Friday, the company's share price closed at 371p, well below the 380p price for the new shares. BAe's advisers believe the share price must rise above 400p in order to induce shareholders to take up their rights. The offer closes on October 28.

In a move which underscores the company's concern about the possible collapse of its rights offer, BAe's interim chairman, Sir Graham Day, plans to visit institutions individually to deliver an upbeat assessment of the company's prospects.

In outlining the company's future direction, Sir Graham is expected to tell shareholders that BAe is considering the appointment of a US-style chief operating officer who will report to Mr Dick Evans, chief executive, and who will also have a seat on the company's board of directors.

Institutions had raised questions about the company's long-term strategy and internal reporting systems after learning that it did not know the full extent of its first six months financial performance until well after the end of the period.

Also, Sir Graham is expected to reiterate the company's opposition to a merger of its defence operations with those of GEC, telling shareholders it is not in their interest to support such a move.

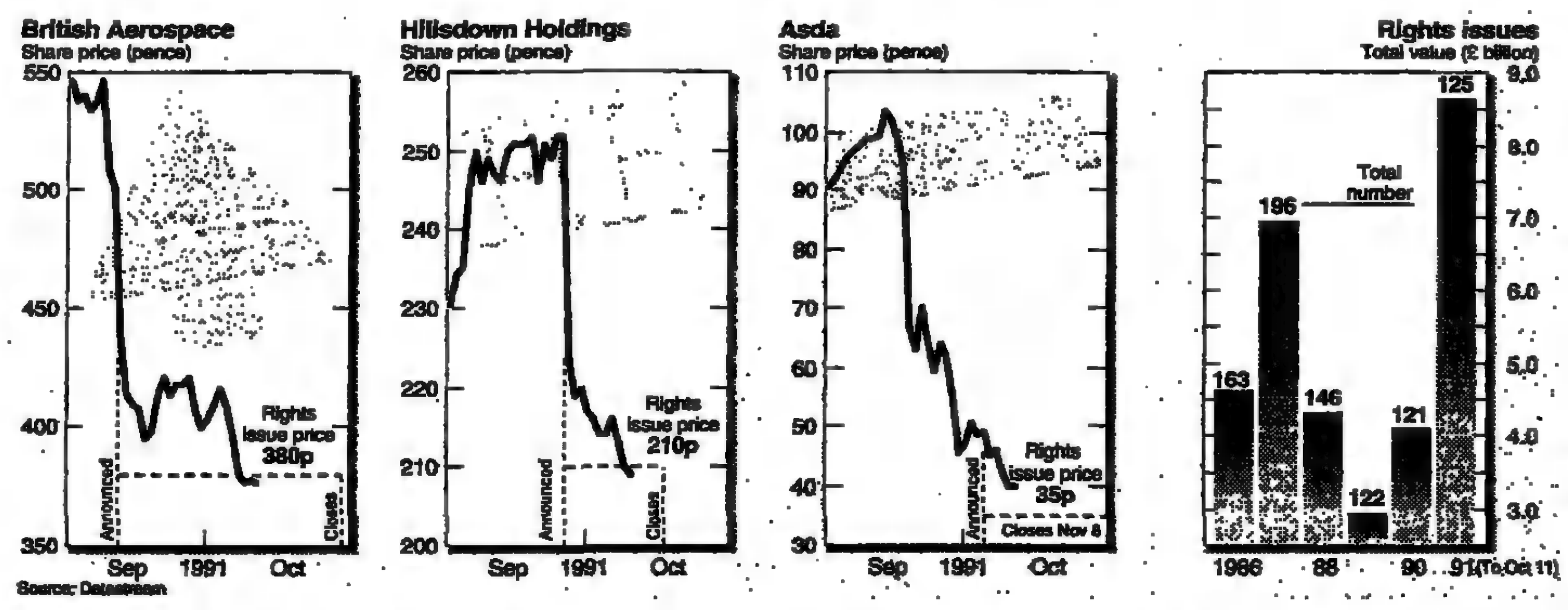
GEC has raised the possibility of taking a 30 per cent stake in BAe with an eye towards merging the two companies' defence operations.

But Sir Graham will tell shareholders that such a tie-up will force BAe to use GEC components on its military orders, reducing flexibility to design products for individual customers.

Sir Graham will also tell shareholders that demands for working capital peaked over the summer and will decrease towards the end of the year. The company had a net cash outflow of £831m in the first half of the year.

Meanwhile, shareholders will also be told that the company is seeking profit margins in the company's Rover subsidiary of between 5 per cent and 6 per cent – roughly in line with those of its Japanese competitor – by the end of the decade. It believes it might achieve profit margins of 8 per cent by the mid-1990s.

All wrong over rights



Source: Datastream

The future of cash calls in the UK has been thrown into question, write Norma Cohen and Richard Waters

For the first time since the stock market crash of October 1987, underwriters are facing losses on two, possibly three, major UK rights offerings, throwing the fate of other planned cash calls into question.

The imminent failure of the rights issues threatens the complacency with which merchant bankers, brokers and institutions themselves view the process of cash calls. "In the last seven or eight days, the underwriting market has definitely deteriorated," said a corporate broker at one leading finance house.

Rights offerings for British Aerospace, Hillsdown Holdings and Asda totalling more than £1bn ($1.72bn) have been announced in recent weeks.

Late on Friday, shares in BAe and Hillsdown closed below the offer price of the new shares – making it unlikely that institutional sub-underwriters will be able to unload their stakes profitably. Since investors can buy shares more cheaply in the open market, it makes little sense to pay more for them by purchasing them via the rights offering.

Indeed, several major institutional shareholders in British Aerospace were said to have sold shares in the company over the past week equal to their underwriting participation. The institutions, realising they are likely to be stuck with new stock, are taking steps to avoid increasing their exposure to the company.

By last Friday evening, shares in BAe closed at 371p, below the rights offer price of 380p. If fewer than 70 per cent of shares are taken up, the offer will be viewed as a disaster, tempering institutional appetite for further corporate cash calls for some time.

"The indigestion is likely to overhang the market for the next six months or so," said one of BAe's institutional shareholders.

And, unlike the BP share offering of four years ago, there is no world-wide stock market crash to blame. Instead, the markets are simply questioning the management and long-term strategy of the three companies.

Meanwhile, the glut of rights issues since the beginning of the year has left shareholders with a lot less spare cash to put into the market, forcing them to be more choosy about issues.

According to data from WM Company, the pension fund consultancy, pension funds had an average 4 per cent of assets in cash at the end of June, and are likely to have run that down further in the past four months. At the end of 1990, funds had an average 7 per cent of assets in cash.

For their part, institutions concede they have not been highly selective about which rights offerings they will underwrite. Accepted practice calls for institutions to underwrite a portion of stock roughly equal to their holding in the company. Partly because they receive underwriting fees of 1¼ per cent – more if the shares must be held longer – institutions view underwriting as a commercial decision, separate from the decision to hold shares.

"It's money for old rope," said one institutional fund manager.

In the case of BAe, shareholders have calculated that the market price of shares can fall to 374p before they actually lose money on their underwriting positions. The offering closes on October 28.

Indeed, with more than £8bn raised in rights offerings this year, institutions have earned roughly £100m in underwriting fees.

But the threatened failure of major rights issues is forcing institutions to rethink that strategy. The investment chief at one major life assurance company said: "Increasingly, we are starting to view the decision to underwrite as a decision to hold the shares because it looks increasingly likely that we may get stuck with the shares."

Meanwhile, institutions concede that accepted practice requires them periodically to underwrite offerings in companies they are not enthusiastic about.

"There is a system in place in the City which most institutions take the rough with the smooth: they take whatever is on offer," says one senior merchant banker. "There isn't a lot of cherry-picking."

Institutional shareholders in Asda, the supermarkets chain, say they agreed to underwrite the issue, partly because the share price of 35p appeared cheap. Shares closed on Friday at 40p.

But for a debt-laden company with no senior management – its chief executive departed last June – institutions concede they participated unhappily. "I'm embarrassed to say I did the underwriting," said one Edinburgh-based shareholder.

"We did underwrite, but that's because we felt that if we didn't, the banks would own the company," said one shareholder.

Meanwhile, some institutional investors have begun to suggest that brokers rethink the fee structure for rights offerings.

"As it is, the safe companies are subsidising the risky ones," said one fund manager. He suggested that if underwriting fees were negotiated with sub-underwriters, it would discourage gratuitous fund-raising exercises.

Institutions say privately that a handful of brokers – particularly Cazenove which controls a disproportionate number of equity issues – have tremendous sway over underwriting. Those institutions which resist participating in unattractive offerings fear being cut out of highly profitable ones.

About 200 institutions participate regularly in sub-underwritings. In the case of BAe and Asda, some institutions were reportedly reluctant to underwrite new shares proportionate to their existing holdings, forcing brokers to spread the underwriting even wider.

"If a big institution does not want to take up its full proportion, that sends a bad signal and puts a greater burden on others," said one broker.

Hanson PR 'failed to stem bad publicity'

By Clive Cookson in London

LORD HANSON believed that his company lost this summer's undeclared public relations war with Imperial Chemical Industries, according to a letter he sent to his senior PR adviser, Sir Tim Bell, at the end of August.

A leaked copy of the letter published in yesterday's Observer newspaper shows that Lord Hanson, chairman of the Hanson group, blamed Sir Tim and his company, Lowe Bell Communications, for failing to stem the tide of bad publicity which followed Hanson's acquisition of a 2.8 per cent stake in ICI.

"We're disappointed with the press recently." Lord Hanson said in the letter, dated August 26. He told Sir Tim that Mr Alan Parker, ICI's public relations adviser, "shows himself to be running circles around us."

Lord Hanson was upset about the way Mr Parker and his PR company, Brunswick, allegedly "managed to imprint in the media's mind 'the Lord White Lifestyle' lie."

The letter was provoked by an article in The Mail on Sunday of August 25. The newspaper had attacked Lord Hanson for investing shareholders' money in a bloodstock partnership in which Lord White, *chairman of the* company's US subsidiary, Hanson Industries, also held a personal stake.

Sir Tim was not available yesterday to comment on the letter. Mr Martin Taylor, Hanson vice-chairman, also declined to comment. "It's all history now," he said. "I can't remember what our view was seven weeks ago."

However, Mr Taylor said Sir Tim's company was still "a premier adviser to us." He declined to discuss Hanson's view of ICI's public relations campaign now, saying: "We're in the midst of our offer for Beazer."

Mr Parker and ICI's chief press officer, Mr Martin Adeney, were equally reticent. They declined to discuss Lord Hanson's claim in the letter that Mr Parker "spends his client's money trying to discredit us."

Hanson's acquisition of a 2.82 per cent stake in ICI on May 14 led many analysts to predict that the acquisitive conglomerate would eventually make a full-scale takeover bid.

Those expectations have faded and there is now a widespread view in the City of London that Hanson is looking to sell its 20m ICI shares.

Hanson paid an average 1194½p per share; ICI shares closed on Friday at 1310p.

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The mystery of the D-Marks that disappear

Economics Notebook

By Peter Norman

THE ramifications of the Soviet Union's economic crisis seem endless.

Not only is the crisis the dominant theme at this year's annual meetings of the International Monetary Fund and World Bank in Bangkok, but there is also a chance it could upset the trend to lower interest rates in the UK and other big industrial countries.

The Soviet crisis – and the civil war in Yugoslavia – are thought to be significant factors behind a sharp rise in German money supply that threatens to take M3, the Bundesbank's chosen money supply measure, to the top of its target range of between 3 per cent to 5 per cent very soon. But the Bundesbank cannot be sure and may yet be tempted to push German interest rates higher again.

A sharp growth in cash holdings of D-Marks provides the link between interest rate trends in the Group of Seven countries and the turmoil in the Soviet Union and Yugoslavia.

The D-Mark is a favoured hard currency in both countries. Indeed, when a top-level US government delegation visited Moscow recently it was chagrined to find that it had been quartered in a hotel where all transactions were conducted in D-Marks.

This spread of the D-Mark is thought to explain why German cash in circulation is currently expanding at an annual rate of 8.5 per cent. This in turn has helped push growth of M3 to around 4.5 per cent. And, according to Mr Helmut Schlesinger, the Bundesbank president, a quickening of the M3 growth rate to 5 per cent is likely.

So long as the D-Mark notes are held and used outside Germany they should have no impact on German domestic monetary conditions and therefore would be neutral from an inflationary viewpoint. But the Bundesbank admits that it has no clear idea about the volume of cash circulating outside Germany.

Meanwhile, Mr Schlesinger fears that Germany's inflation rate could still be above the 4 per cent level at the end of the year, which by German standards is unacceptably high.

Inflationary pressures abound. There is still a monetary overhang from the union of eastern and western Germany. Wages in Germany are rising at a faster rate than in Britain and there is little sign that wage inflation will ease next year.

Credit is also expanding rapidly. Mr Schlesinger said it was growing at an annual rate of more than 10 per cent while credit commitments are growing even more quickly, by 30 per cent. He said that government interest rate subsidies appeared to be playing a big part in this aspect of German monetary expansion.

Germany's efforts to privatise the former state-owned companies of eastern Germany also have helped fuel the credit boom. The Bundesbank believes that Germany may be in a phase of corporate acquisitions echoing those experienced in the Anglo-Saxon countries in the 1980s.

Friday's G7 meeting dealt with the monetary aspects arising from Germany being in a different stage of the business cycle from the US and the UK.

While German money supply growth threatens to burst its target bands, the expansion of M0 in Britain and M2 in the US is weak. This, Mr Schlesinger said, was throwing a shadow over the prospects for recovery in the two countries.

Such divergences are the reason why the G7 long since abandoned co-ordinating interest rates in favour of the "Sinatra doctrine" in which countries go their own way in setting monetary policy.

Germany, the US and Britain have all used this freedom over the past 12 months. But last week's downward wobble of sterling against the D-Mark again raises the question as to whether Mr Norman Lamont, Britain's Chancellor of the Exchequer, will be able to cut UK interest rates much further with the pound linked to the D-Mark in the exchange rate mechanism of the European Monetary system and in the uncertainties on a pre-election period.

Wish fulfilled

If there is one man on a high at this year's IMF meeting it is Mr Michel Camdessus, the fund's managing director.

For it is almost certain that the IMF will fulfil the wishes of its founding fathers and be a true world institution during his second five-year term of office which begins next year.

The Soviet Union was one of 44 countries that participated in the 1944 Bretton Woods conference that led to the creation of the IMF and World Bank. But it refused to join the two bodies when they started operating at the end of the Second World War.

The IMF now has 155 members with Albania expected to be admitted in the next few days. Once the present eight applicant countries, which include the Soviet Union, have been admitted to the fund the only sovereign nations of any economic significance to be left outside will be Cuba and North Korea. Taiwan is another exception having been booted out of the fund some years ago to make way for China.

An interesting aspect of the special association agreement signed between the IMF and the Soviet Union earlier this month is that it opens the way for close ties between the fund and the individual Soviet republics that could facilitate their entry into the IMF in the event of their leaving the union.

It was agreed that the IMF should "give favourable consideration" to requests from the union republics for the extension to them of the technical assistance and co-operation agreed between the fund and the Soviet authorities in Moscow. The IMF would "inform" the union of any such request by a republic but would not involve the union in the dialogue.

There are signs that this paragraph in the agreement will set off a healthy competition between the republics and the Soviet authorities to meet the IMF demands for accurate data on their economies.

It is understood that President Mikhail Gorbachev is anxious to help the IMF because he sees membership and the assistance that it could bring as a way of helping to keep the union together. Many republics are keen to comply with IMF wishes so that they can be in a better position to go ahead on their own, if they decide on such a course.

But the difficulties facing the Soviet and republic authorities in assembling the economic data that the IMF requires are formidable. Whether eventual IMF membership will help maintain the Soviet Union or speed its disunion will not become apparent for some time.

M&A deals feel effects of Gulf war

By Michiyo Nakamoto in London

CROSS-BORDER mergers and acquisitions activity in the third quarter of this year fell to the lowest level seen since international deals were affected by the world stock market crash in October 1987. However, industry specialists said activity was picking up.

Cross-border M&A deals in the three months from July to September fell to 315, according to figures compiled by KPMG Peat Marwick, the accountants and consultants.

This is the lowest figure since 228 completed deals were announced in the last quarter of 1987 which included the October stock market crash.

The effects of the Gulf War and the recession in 1991 were more marked on the value of cross-border deals, which slumped to a lower level than in the fourth quarter of 1987.

The value of international M&A deals in the third quarter was £10.5bn compared with £10.9bn between October and December, 1987.

However, this was not as low as the £9.8bn in the first quarter of 1991 when the Gulf War hit international activity.

"People are beginning to think of cross-border activity and there are a lot of opportunities," said Mr Richard Agutter at Peat Marwick.

Mr Agutter said areas of opportunity for increased cross-border M&A included:
- Businesses were focusing more on core activities, selling non-core activities at more realistic prices.
- Entrepreneurs who started in the 1980s were looking to sell and retire.
- Cash flow shortages were forcing companies to sell.

COMPANIES AND FINANCE

Invergordon scotches rumours of alliance

By Michiyo Nakamoto

INVERGORDON Distillers, the Scotch whisky group facing a £350m hostile bid from Whyte & Mackay, the UK drinks arm of American Brands, denied that it was considering cross-shareholdings with any group to keep its independence.

"No cross-shareholding is being contemplated with any party, despite considerable press speculation about poison pills," Mr Edward Pickard, Invergordon finance director said yesterday.

Although there has been speculation for some time that Invergordon was considering a share alliance in order to ensure its independence, this is the first time it has publicly denied that such a move was being contemplated.

Mr Pickard was responding to suggestions by Whyte & Mackay in its offer document detailing the £350m final and increased cash offer which was sent out late on Friday, that the distiller has plans for a share alliance and to press reports that it had considered such an alliance with La Martini Quaise of France.

"In my opinion if the bid were to lapse Invergordon would be looking to conclude a cross-shareholding deal," Mr Michael Lunn, chairman and chief executive of Whyte & Mackay, said. Shareholders should therefore consider the implications of such a deal by Invergordon which would dilute their interests and could in future deny shareholders a bid premium for their shares, the offer document says.

However, Mr Pickard emphasised that La Martini is one of several customers in France and no talks have taken place on cross-holdings with them.

A spokesman for the group also stated categorically that "there are no deals which in any way give one group of shareholders preference over any other."

Technically during a takeover bid, any such deal involving cross-shareholdings would have to be approved by shareholders and would therefore be unlikely to be successful. That rule does not apply, however, where there is no bid.

An expansion plan clouded by uncertainty

Nikki Tait reports on BAA's first expedition into the US airport market

BAA will need to secure tenants for 120 retail spaces

LEAPING through a morass of dangling wires, concrete slabs and general construction debris, Michael Bell of BAA, the privatised former British Airports Authority, enthuses "If you could just visualise a McDonalds, Burger King or Wendys over there..."

In truth, it is difficult to visualise anything. Like all big capital projects a year from completion, the new $600m-plus Pittsburgh airport complex is a bewildering concrete jungle, through which the architect's X-shaped docking structure, "people mover" rails, and adjoining terminal building are only dimly recognisable.

What is inescapable is Mr Bell's English accent, a sharp contrast to the surrounding mid-Western drawl. For, in its first expedition into the US airport market, BAA has won a contract to handle the retail space and poster sites at Pittsburgh's new facility.

Nobody is pretending that this, in itself, is going to be a great money-spinner, although Mr Bell, previously general manager at Heathrow's Terminal One and in charge of the Pittsburgh project, says it should be profitable. But a push into overseas airport management is a potential expansion avenue for a company whose growth prospects back home are under a cloud.

Indeed, it is no secret that BAA officials – Mr Bell included – have already made exploratory trips to Denver, where an entirely new $2bn-plus airport complex is due to open in 1993. BAA, which runs eight UK airports, is non-committal when asked about the prospects there.

Back in the reality of Pittsburgh, there is no denying the "Midfield Project's" local significance; regional economists suggest that the eventual job generation could number 10,000. Although the scheme is not usually classed as a "new airport" because existing runways will be retained, it does represent substantial expansion, offering 75 jet gates against the current 52, with room for further additions.

All airlines, meanwhile, are due to shift from the existing terminal building in October 1992, and this increasingly shabby edifice will be then be devoted to unspecified "alternative use".

BAA's role in all this is to design and lease all the retail space in the new buildings, and to handle the on-site advertising. That means securing tenants for some 120 retail spaces, ranging in size from 300 to 3,500 sq ft, overseeing their operations, supplying facilities, and so on.

From a financial standpoint, BAA will guarantee a minimum return to the Pittsburgh airport authorities, plus a share in profits. The UK company itself plans to make money by taking a rental income from the concessionaires, based on a percentage of sales. Contracts between BAA and the concessionaires will range from three to seven years, while the company's deal with the airport runs for 15 years.

This arrangement, in itself, is something of a break with US tradition. As at the current Pittsburgh terminal, US airport authorities have tended to lease the space to, say, a food and beverage operator and a non-food operator. Pittsburgh's new thinking is that, by bringing in a "middle-man" to manage the retail space, it can increase the variety and quality of outlets.

So, according to Scott O'Donnell, director of Pittsburgh's Department of Aviation, it was BAA's experience back in the UK, as well as the fact that it offered the highest return, which won it the contract over four rival bids.

In fact, the 17.1m passengers who passed through Pittsburgh airport in 1990 was remarkably similar to the 17.5m seen at Heathrow's Terminal One, although in Pittsburgh's case about 63 per cent are "connecting" travellers while at Terminal One a similar proportion is "origin and destination".

ALL of which would sound like a winning situation if it was not for the shaky state of America's airline industry generally, and USAir in particular. USAir, the sixth largest US carrier, is easily the most dominant force at Pittsburgh, commanding 82 per cent of the airport's traffic. American, the second largest, accounts for less than 10 per cent and leases only two gates at present.

USAir, however, made a $501m loss after tax last year. Worse, it has warned of a $500m-plus deficit in the current 12 months, and has remained gloomy about prospects for 1992.

Whether this has implications for the airport is a debatable point. So far, consolidation by USAir has increased business for Pittsburgh. The closure of its Dayton hub is largely responsible for the small increase in flights from Pittsburgh planned for the New Year.

Some analysts also make the point that a respectable third of Pittsburgh's traffic does start and finish in the city – suggesting that, even in the worst possible scenario, someone is likely to service the city's business community.

That said, the cloud of uncertainty is undeniable. What, for example, might a merger between USAir and some other carrier somewhere down the road mean for Pittsburgh?

Moody's, the Wall Street rating agency which recently produced a comprehensive report on airport debt, gave an Aaa rating to Pittsburgh, but it still noted: "Given that more than half of Pittsburgh's enplanements are generated by USAir's connecting traffic, the airport is vulnerable to the full or partial loss of this market should USAir falter."

This is also a matter which seems to have preyed on Mr Bell's potential customers. He admits that some of the larger potential concessionaires have decided to do their own studies of the situation, although he claims that no-one has backed out because of USAir's troubles. In fact, Mr Bell is remarkably optimistic.

The proof, however, will only come when the names of concessionaires, and the profits of this new business, are delivered.

Fiat takes lead in sale of Poland's motor industry

By Brian Bollen

THE accelerating privatisation of eastern Europe produced what is potentially last week's largest international mergers and acquisition transaction.

Fiat of Italy underlined its commitment to the region, particularly Poland where it has had links for some 70 years, by agreeing to buy 51 per cent of FSM (Fabryka Samochodow Malolitrazowych). This marks the start of the sale of Poland's motor industry and will be the country's largest privatisation yet.

The continuing restructuring of Europe's construction industries saw Halfen, the German building materials group, launch an agreed cash offer for Unistrut, the UK metal framing company.

The purchase of AW Cash Valve of Illinois marks the first US acquisition for IMI, of the UK.

Medeva, the fast-expanding UK pharmaceuticals company, made its second US purchase in the past six months giving it its first significant marketing presence there.

In the financial services sector Bank of Ireland joined in the restructuring taking place in the US banking industry. It will become the largest bank in New Hampshire with the purchase of two small ailing banks from the Federal Deposit Insurance Corporation.

The week saw another link-up between a US corporate finance boutique and a Japanese institution with Long-Term Credit Bank of Japan agreeing to buy Peers & Co of Wall Street.

Schroders, the UK merchant bank, plans to bolster its far eastern presence with an investment management joint venture in Malaysia, where it is advising on privatisation.

The Minet Group, one of Britain's largest insurance broking companies, said its purchase of a majority stake in Oy Ykkosmeklarit-Firstbrokers from Finnish investment house Nobiscum Oy forms another important link in its European investment chain.

Maxwell Communication Corporation continued its asset sales programme to reduce debt, disposing of the directories business of Macmillan, the US publisher. The purchase fits with Reed International's expansion strategy.

Lion Nathan, the New Zealand brewing group, will become Australia's biggest brewer with the purchase of Australian Consolidated Investments, formerly Bell Resources and once a vehicle for the late Robert Holmes à Court.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
American Brands (US)	Invergordon Distillers (UK)	Spirits	£350m	Improved final offer
Reed International (UK)	Unit of Macmillan (US)	Publishing	£84m	Maxwell asset sale
Lion Nathan (New Zealand)	Australian Consolidated Investments (Australia)	Brewing	£72m	Forming Australia's biggest brewer
Medeva (UK)	Adam Laboratories (US)	Pharmaceuticals	£45.4m	Growing too fast?
Halfen (Germany)	Unistrut (UK)	Building products	£19.6m	Agreed cash offer
Long-term Credit Bank of Japan (Japan)	Peers & Co (US)	Financial services	£12m	Needs Federal Reserve approval
IMI (UK)	AW Cash Valve (US)	Building products	n/a	First US buy
Minet Group (UK)	Ykkosmeklarit-Firstbrokers (Finland)	Insurance	£0.6m	Continuing European growth
Fiat (Italy)	FSM (Poland)	Car manufacture	n/a	Intent letter signed
STET (Italy)	Victori Comunicacoes (Brazil)	Telecoms	n/a	LatAm growth strategy

Source: FT Mergers & Acquisitions International

Executive decision draws nearer

Nikki Tait reviews proposals for rebuilding the failed Executive Life of California group as bidders make a final pitch for the complex job

"I'm 100 per cent certain," said John Garamendi, California's high-profile insurance commissioner, with typical aplomb, "that we'll get some sort of solution." That was five months ago, and he was talking about the debacle at Executive Life of California, a Los Angeles-based insurer whose business he had just seized.

Last Friday night, as the first round in an auction for Executive Life closed, "some sort of solution" seemed a highly appropriate phrase. On the one hand, a respectable number of "bids" – eight in all – had been submitted by the deadline, and policyholders' prospects looked a lot better than they did six months earlier. On the other, the quality of certain proposals seemed questionable.

Executive Life's fate was – and is – important for a number of reasons. The first is simply size. When the insurer was seized in April, it represented the largest insurance company collapse in US history, involving hundreds of thousands of investors. They were immediately barred from withdrawing their money, and could only wonder what their policies would eventually be worth.

More than this, the episode was a damming consequence of the Drexel Burnham Lambert era. The insurer had been a big customer of the defunct investment bank, and its colossal investment in Drexel-issued junk bonds proved its eventual undoing. Thirdly, Mr Garamendi's action carried heavy political overtones, given that the adequacy of state-based insurance regulation was already a hot topic of debate.

How will the situation be resolved?

Of the eight interested parties, four are genuine "industry bidders" – in most cases enticed by Executive Life's huge junk bond portfolio and its "work-out" possibilities.

This motley collection comprises a French consortium, whose leading lights are Altus Finance, a Credit Lyonnais subsidiary, and MAAF, a big mutual insurer; a US grouping led by West Coast investment bankers, Hellman & Friedman, and the Chicago-based Zell/Chilmark fund; a second US consortium made up of Bechtel Investments, The David Geffen Company, and Texan investment business, Rainwater Inc.; and Broad, a larged quoted financial services group, also based in Los Angeles.

The second set of bids emanates from parties with a vested interest in how the insurance company's affairs are resolved. The most interesting comes from the National Organisation of Life and Health Insurance Guaranty Associations, an umbrella organisation for the various state insurance guaranty funds.

The purpose of these funds is to help make good policyholder losses when a local insurer goes bust – drawing money from other solvent insurers in the state – but this is the first time the funds have taken such an aggressive stance in an insurance failure case.

The next two bidders are different action groups representing holders of municipal bonds which were backed by Executive Life savings contracts. The insurer has stopped paying out on these contracts, deeming them non-insurance products – with the result that some muni-bonds have defaulted, and legal action has flowed. Finally, there is an offer from the creditors committee of First Executive, the parent company, now in bankruptcy proceedings.

Clearly, given that the centre of all this interest is an insurance company, with complex liabilities on the one hand and a jumble of assets on the other, comparisons of the bids is not easy. Most bidders are offering to restructure the insurance liabilities – that is, to offer policyholders a certain share of their previous benefits – and to inject some capital to support these ongoing insurance operations.

They are also offering various suggestions for the asset side of the equation, ranging from the outright sale of the junk portfolio at this point, to its retention within the ongoing insurance operation.

What the insurance regulators must decide is which scheme offers the best deal for investors. There are many aspects to this decision, but one critical question must be whether it is wiser to "crystallise" the value of the junk bonds now, with the risk that policyholders will not share significantly in any future uplift in the portfolio's value, or to retain these assets in the ongoing insurance business and expose them to any slump in its value.

The different approaches can be seen clearly by comparing, for example, the Altus/MAAF scheme with that of Hellman & Friedman.

In a revised French proposal, Altus would buy most of the junk for $2.85bn. This money, together with the insurers better quality assets and a $300m capital injection from the MAAF consortium, would provide the basis for the continuing insurance business. Higher-quality junk bonds remaining with this operation would be supported by a $500m guarantee, and policyholders would see an 86 per cent recovery before any Nolgha top-up.

In the Hellman & Friedman case, the insurance operations would be recapitalised with a $300m cash injection, with another $450m supposedly available on "stand-by". The junk would be retained as an asset of the ongoing company – having been given an initial book value of "around $3bn" – and policyholders would get to share in the profits of the ongoing business. During the first five-year period, they would get either 50 per cent of the first $200m profit, or 15 per cent of all profits made, whichever was higher.

Not surprisingly, the French – whose proposal is certainly among the most thorough so far – argue that security for policyholders is paramount. Equally, however, the insurance commissioner must be sure that the junk is not being acquired at a "rip-off" price.

Of course, last week's deadline does not mean the bidding process is at an end. On Friday afternoon, the court which is technically overseeing Mr Garamendi's conservatorship of Executive Life issued an order giving the bidders another week to improve on existing offers. Since some of these – such as the Broad offering – seem to be in an unfinished state at present, significant changes could unfold.

It will be a full week later, on October 25, when the Californian insurance department announces its recommended selection to the court. Only then will policyholders have some idea of what the future holds.

Nova slashes dividend by half

By Bernard Simon in Toronto

NOVA Corporation of Alberta has slashed its dividend by more than half and delayed plans to hive off its gas pipeline and chemicals businesses into two separate companies.

Nova said the cut in the quarterly dividend, from 13 to six cents a share, was needed to conserve cash for the costly expansion of its pipeline network in the face of the weak petrochemicals market. Capital spending on the pipeline network is estimated at C$600m (US$531) this year, and a similar amount in 1992.

The split between the regulated gas pipeline division and the chemicals business was originally expected to take effect at the end of this month. However Nova now says that a feasibility study on the break-up, which began last April, will not be completed until some time in 1992.

Nova suffered an C$18m loss in the three months to June 30, and has long-term debt of C$3.2bn. It has warned that a separate chemicals company will probably not pay any dividends for three years.

Mr Ted Newall, who took over as chief executive last month in anticipation of the split, said the pipeline business, which collects almost all the natural gas delivered to Alberta border points for transmission to other parts of North America, was Nova's "first priority".

Mr Newall said margins on chemical sales remained depressed in spite of a modest pick-up in demand during the third quarter.

As part of its efforts to cut debt, Nova has put its 43 per cent interest in Husky Oil of Calgary up for sale. Husky's controlling shareholder is Mr Li Kashing, the Hong Kong magnate. Mr Newall said Nova was also reviewing its other non-pipeline businesses with a view to "greater focus and concentration".

Alcan hit hard by weak prices

ALCAN Aluminium has blamed poor prices due partly to heavy Soviet metal sales for a 94 per cent slump in its third-quarter earnings, writes Bernard Simon.

The Montreal-based company's net income tumbled to US$6m, or zero cents per share, from US$97m, 41 cents, a year earlier.

The latest figure includes a $39m after-tax charge to cover restructuring in North America, the UK and Brazil. An $8m gain was realised from the sale of land by Alcan's Japanese affiliate.

Revenues fell to just under $2bn from $2.2bn. Ingot shipments rose to 235,000 tonnes from 217,000 tonnes, but average prices dipped by 18 per cent to $1,371 per tonne. Deliveries of fabricated products dropped to 335,000 tonnes from 376,000 tonnes, with prices falling by an average of 6.4 per cent to $3,621 per tonne.

Alcan, which suffered losses in the two previous quarters, recently cut its quarterly dividend to 15 cents from 28 cents a share.

Mr David Morton, chairman, said although demand for aluminium was about the same as last year, prices were being hit by excess supply. Only in Latin America have earnings improved in recent months.

Interest charges have also risen markedly, to $56m in the third quarter, from $44m a year earlier. For the nine months to date, earnings dropped to zero from $353m. Interest payments rose to $179m from $137m.

NRI TOKYO BOND INDEX

December 1983 = 100	11/10/91	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	163.40	6.24	163.73	156.41	153.61
Government Bonds	161.59	6.09	162.17	153.99	151.23
Municipal Bonds	165.76	6.41	165.95	158.18	155.32
Govt.-guaranteed Bonds	168.40	6.43	168.41	161.01	158.29
Bank Debentures	159.75	6.15	160.04	153.52	150.80
Corporate Bonds	164.45	7.05	164.16	159.78	156.79
Yen-denom. Foreign Bonds	171.38	7.16	171.14	165.56	160.89
Government 10-year†	6.06	–	5.99	6.67	6.67

† Estimated par yield

Source: Nomura Research Institute

Hongkong Bank to merge brokers

HONGKONG and Shanghai Banking Corporation is to merge its stockbroking businesses based in Hong Kong and inject them into a new holding company for stockbroking and merchant banking activities, writes Angus Foster in Hong Kong.

The bank is merging subsidiaries James Capel (Far East) with Wardley-Thomson under a new holding company Wardley James Capel Holdings. Wardley's regional corporate finance business will also be held through the new holding company.

Japanese equities lure fund managers

By Terry Byland

FUND managers are taking a positive view of Japanese equities and plan to increase their holdings in this sector, according to the latest survey by Gallup for Smith New Court, the international investment house.

The October survey indicates that managers would finance the increased investment in Japanese shares partly by reducing their holdings of US equities, on which many managers have suddenly turned bearish. They would also reduce their holdings of UK government bonds and cash.

Of 99 investment institutions surveyed – handling total funds of £485bn – 63 per cent said they planned to raise their holdings of Japanese shares. A balance of 58 per cent – up from 25 per cent in September – are bullish towards the Nikkei Index over the next three months, and 74 per cent over the next 12 months.

The median forecast for the Nikkei in three months is 25,426, against 24,156 in September.

The UK stock market is still regarded favourably, with 27 per cent of managers planning increased investment. On balance, a majority of 21 per cent of managers take a bullish view of London and the consensus forecast is for an FT-SE Index at 2,656 in three months and 2,902 a year from now.

But 15 per cent of the managers polled plan to decrease US equity holdings. The average forecast is for a Dow at an unchanged 2,985 in three months.

Other European equities also attract support with 25 per cent intending to increase investment in these markets compared with only 19 per cent in September.

Rodamco, ABP consider accord

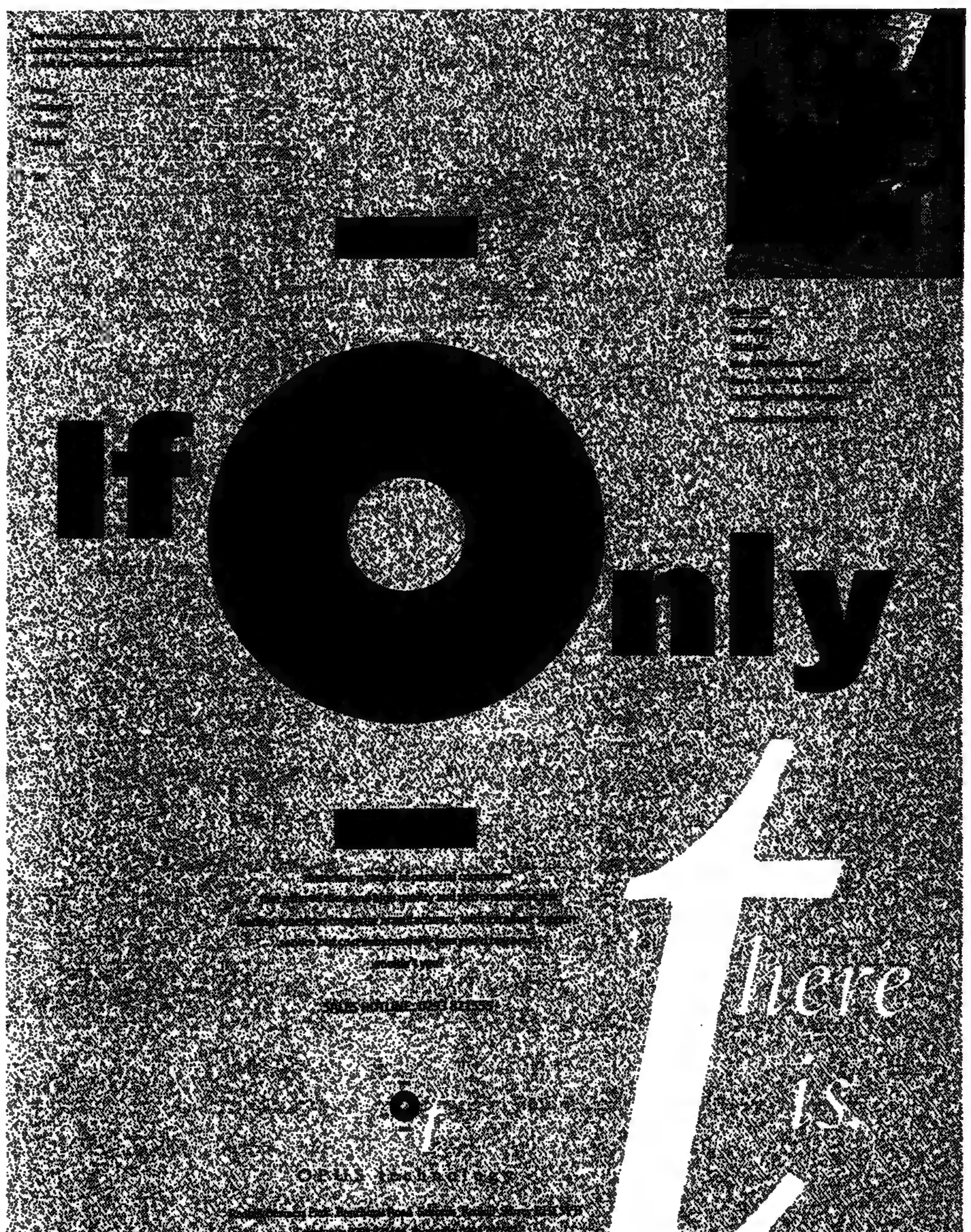
By Ronald van de Krol in Amsterdam

RODAMCO, the Netherlands' largest property investment group, and ABP, the big Dutch civil servants' pension fund, are considering co-operation in foreign property investment.

They declined to give details, but said the proposed co-operation would not involve ABP – the world's second largest pension fund – making a bid for Rodamco. Rodamco is part of the Rotterdam-based Robeco investment group.

A partnership would help ABP realise its goal of expanding its tiny overseas property holdings.

Until 1988, ABP was forbidden by law from investing in foreign property, shares or bonds. Since then, it has built up a foreign property portfolio worth more than Fl 800m ($420m).



INTERNATIONAL CAPITAL MARKETS

UK GILTS

Sterling jitters drive prices down

NERVOUSNESS on the foreign exchange markets about the political outlook for the government cast its shadow last week on gilt-edged securities. Yields rose for most classes of the bonds, although on Friday some of the nervousness dissipated after a strong speech by Mr John Major at the Conservative party conference.

For the week as a whole, the price of the benchmark 9 per cent Treasury bond maturing 2008 declined by ¾ of a percentage point, being quoted on Friday night at just under 96. Shorter-dated bonds saw a similar cut in prices.

Behind sterling's recent weakness have been worries about possible divisions in the Tory party over European monetary integration and the strong showing by Labour in the opinion polls. As a result, the pound slumped to around DM2.90, some 5 pfennigs beneath its central DM2.95 position in the European exchange rate mechanism.

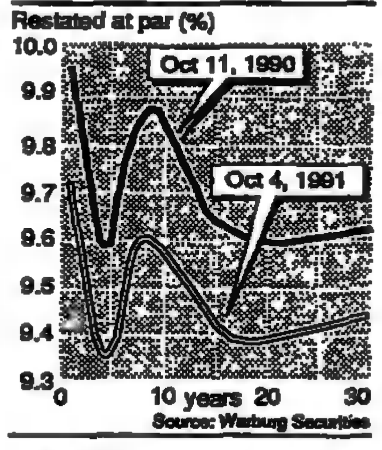
The jitters over sterling spread quickly to the gilt market, where dealers marked down the securities on account of weakened interest by overseas investors. In some cases, traders reported a large switch from these investors out of gilts to other government bonds, such as German bunds. Operations of this kind were most noticeable on Wednesday, when gilts lost about ¾ point, although on Friday much of this reduction was reversed, largely due to a confident address by the prime minister at the Blackpool conference.

This week, the market's attention will probably focus on the stream of economic data due on the UK economy, much of which is likely to indicate continued weakness, and so help gilt prices. "There will be more economic news for the market to come to grips with, rather than political news, and this will generally have a positive effect," said Mr John Shepperd, an economist at S. G. Warburg.

The consensus that the UK economic recovery will be slow and feeble, with little build-up of inflationary pressures, was underlined by Friday's announcement that the annual rate of rise in the retail prices index last month was 4.1 per cent, down from 4.7 per cent in August. The figure is likely to decline still more, to about 3.3 per cent, during this month. On Thursday, the Employment department will announce the annual rate of increase in earnings across the economy for August, which many believe

UK gilts yields

Restated at par (%)



Source: Warburg Securities

was about 7.25 per cent, compared with 7.5 per cent in July. A low figure would confirm the large recent decline in the annual rate of earnings increases, which have come down from 9.5 per cent at the beginning of the year. It would press home the message that there is little immediate sign of any rapid upturn.

As for the pound, in the coming weeks the currency is almost certain to come under more pressure, partly due to the political flurries that are likely to hog the attention of financial markets in the run-up to the general election. There is also next month's expected announcement by the Treasury of a large rise in public spending for 1992-93. The total could climb from the planned £257bn to about £264bn, according to some estimates. That would mean Britain's public sector borrowing requirement, likely to be about £10bn this year, could jump in 1992-93 to about £18bn, a figure that could worry many operators on foreign exchange markets.

Gilts would feel some effect of any further moves to sell sterling, and also suffer as a result of expectations about a surge in gilt issues in 1992-93, which would be needed to pay for the extra public spending. According to some projections, the total volume of gilt issues for 1991-92 will be £15bn, of which about £8bn have already been announced. The total for 1992-93 might be as high as £23bn, which could push down gilt prices and increase yields.

In the short term, many gilt market operators feel the latest indications about the fragile state of the UK economy will spur on the market. But the jumpiness over sterling, together with the rise in gilt issues which is around the corner, means that the market faces a bumpy road ahead.

Peter Marsh

GERMAN BUNDS

Allocation criteria to reflect performance

NON-GERMAN banks are likely to be able to take a greater share of future Bund issues following changes to the government-debt issuing process announced by the Bundesbank last week. These are the first significant changes since the system was overhauled in the summer of last year.

At that time, the Bundesbank abandoned its exclusive reliance on a syndicate of mainly-German banks. The syndicate was maintained, but for only part of an issue, and was complemented with a tender process whereby banks could pitch in the open market.

The foreign banks' share of the syndication is believed to be about 20 per cent. This is likely to rise as a result of the latest change, although the new allocations will not be made public.

In addition, the Bundesbank would hold back a certain percentage of each issue for dripping out into the market when conditions were favourable.

But for imminent German unification, it is likely the Bundesbank would have been bolder, and would have got rid of the syndicate altogether, thereby coming into line with the US. But recognising that the government was about to face a quantum leap in borrowing requirements, the Bundesbank chose a half-way house.

Bankers assume the reasoning behind this compromise was broadly as follows: the Bundesbank could be certain of funds from the consortium at a time when funds would be amply needed, but would have to pay a price for this certainty in the form of a relatively generous commission structure to the syndicate members. The tender process, by introducing an element of competition, would enable the Bundesbank to raise a significant proportion of the issue on finer terms.

The allocations to the members of the consortium favour the domestic colossi such as Deutsche Bank, Commerzbank and Dresdner Bank.

What the Bundesbank intends to do from now on – and this was not fully understood in the Frankfurt banking community last week – is to allocate Bunds to members of the syndicate in accordance with institutions' placing power.

While in the past the allocation was an arbitrary administrative decision, in future it will reflect the performance of the institutions in previous tenders, of which there have been nine since the original reforms were introduced last summer. There is no question that the mechanics of each individual issue will be changed: the allocation under the consortium will come first, followed by the tender and then the tap. The fact that proportions set aside for each bank will depend in some part on their performance in previous tenders will provide incentive for banks to pitch aggressively during the tender process.

The Bundesbank is understood to be pleased with the way the system has worked since the reforms were introduced last summer.

The latest changes do not reflect any dissatisfaction with the system, but are designed to give foreign institutions greater incentive to flex their market muscle.

If the strategy is successful, the Bundesbank will raise still cheaper funds and gain better access to the placing power of non-German institutions.

David Waller

US MONEY AND CREDIT

Sales data fail to prompt easing

YET again, the market has been left wondering. Having hoped in vain for an easing of interest rates on the back of some weak employment figures a week ago, attention turned instead to the retail sales figures and inflation data for September, released on Friday.

Once more, however, the authorities disappointed the market – and with no obvious explanation for the lack of action. Like the jobs data, neither consumer spending nor price pressures in the economy seem to pose any barrier to a lowering of interest rates.

True, total US retail sales rose by 0.7 per cent in September, following a 0.6 per cent decline in August. That was a considerably stronger performance than analysts had expected.

The advance, however, was largely due to a particularly strong level of car sales; these, in turn, reflected fleet purchases. Excluding cars, on the other hand, total retail sales last month rose a mere 0.1 per cent, compared with a 0.2 per cent slip in August.

On the inflation front, matters were simpler. The Producer Price Index rose a paltry 0.1 per cent in September – and by zero per cent if the food and energy elements were excluded.

On an annual basis, this means that the "core" rate (which excludes food and energy) is running at 3 per cent, while the total finished goods inflation rate has dropped below 1 per cent, to 0.7 per cent.

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	4.75	4.75	5.19	11.00	2.00
Three-month Treasury bills	5.09	5.15	5.29	8.29	5.27
Six-month Treasury bills	5.20	5.27	5.41	7.70	5.34
Three-month prime CDs	5.40	5.42	5.50	7.47	5.40
30-day Commercial Paper	5.25	5.27	5.40	9.95	5.40
90-day Commercial Paper	5.30	5.30	5.40	10.05	5.35

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	99[illegible]	–	7.17	7.14	7.43
20-year Treasury	114	-[illegible]	7.73	7.66	7.88
30-year Treasury	102[illegible]	-[illegible]	7.88	7.78	7.93

Money supply: In the week ended September 30, M1 rose by $4.6bn to $875.4bn

So, still betting that at least one more easing is odds-on, the Treasury 30-year long bond gained to close the week at 102[illegible], where it yields 7.88 per cent. That was slightly below the 7.78 per cent yield at the end of the previous week, and a shade below Friday's high, which occurred at 11.30am, when the Federal Reserve often signals changes in interest rate policy. But it still reflects a marked rally from the mid-week lows, when a bout of nerves sent the long-bond yield back to 7.94 per cent.

That mid-week setback owed a good deal to the disappointing auction of seven-year notes.

The auction size, $9.28bn, was a record for seven-year maturities, and reports subsequently suggested that bidders in the sale received more stock than they had expected. Some 72 per cent of bids at the 7.2 per cent average bid price were accepted, against an expected 50 per cent or so.

Meanwhile, an interesting pattern seems to be emerging from Treasury auction procedure itself. According to statistics published subsequently, bidders in the New York Federal Reserve district, where many Wall Street-based primary dealers are counted, took only 83.9 per cent of the issue. This compares with about 95 per cent at the previous seven-year note auction in July.

Instead, there were proportionately heavy sales to bidders in the Atlanta and Richmond Federal Reserve districts. The two areas received 8.5 per cent and 3.7 per cent of the issue respectively.

Significantly, this phenomenon has occurred before – in last month's two-year note auction – although a more typical pattern then emerged in the subsequent five-year note auction. Clearly, too much should not be read into a couple of events, but it is at least feasible to speculate that the Salomon Brothers' scandal means that some institutional customers have been encouraged to bypass the primary dealer network.

Whether the new pattern persists will be instructive to watch.

Meanwhile, in its first bond market "call" for three decades, the US government announced that it would redeem early – next February – the tranche of 7½ per cent Treasury bonds due 1993. Not all US bonds – indeed, not even the majority – are subject to call provisions, but those that are present bondholders with a simple risk: the stock is usually redeemed at par.

The effect on this particular issue was immediate. Down tumbled the price of the bonds in the Wednesday announcement, from 101[illegible] to 100¾. By Friday's close, it had lost another ⅝.

As for the week ahead, a fairly steady stream of economic statistics will start to flow once the Columbus Day holiday is over.

Among the key figures will be the Consumer Price Index for September, due on Thursday, where analysts are predicting an increase in the core rate of about 0.3 per cent. Meanwhile, September's industrial production data, also set to arrive that day, are expected to show a modest 0.3 per cent rise.

Nikki Tait

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 93	150	103		6.54
ABN 9 1/8 94	200	104½		7.27
AETNA LIFE & CAS 7 3/4 16	200	100½		7.71
ALBERTA PROVINCE 8 5/8 96	750	104⅝		7.50
ALBERTA PROVINCE 9 3/8 95	600	107⅛		7.27
AMERICAN EXPRESS 0 00	450	45½		8.97
AMERICAN GENERAL 9 3/4 95	100	104⅝		8.35
AMERICAN INTL 0 04	750	34⅛		8.73
ASIAN DEV BANK 0 04	1000	34⅝		8.58
AUSTRALIA 11 95	200	110⅞		7.44
AUSTRALIAN WHEAT 9 1/2 93	200	105⅜		6.82
[illegible]				

	Issued	Bid price	Chg on week	Yield
SAAB 9 1/2 95	500	106⅛		7.20
SEAGRAM CO 8 1/2 96	100	100⅞		8.34
SEARS O/S FIN 0 98	400	55½		9.04
SEARS O/S FIN 11 5/8 93	150	107¼		7.60
SEARS ROEBUCK EURO 9 3/4 95	300	105⅛		7.87
SNCF 7 1/4 94	175	101⅝		6.38
SNCF 9 1/2 98	150	108⅞		7.82
STATE BK NSW 8 1/2 96	200	102⅝		7.77
STATE BK STH AUST 9 1/4 93	100	103⅛		6.57
STATOIL 7 5/8 94	200	100⅞		7.30
STH AUST GOVT FIN 8 3/4 93	100	102⅞		6.66
SUMITOMO BK CAP MKT 9 3/8 95	150	104⅞		7.12
[illegible]				

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	100	87½		7.22
AUSTRIA 4 5/8 98	100	89⅛		6.92
CHUBU ELEC POWER 6 3/4 01	300	100⅛		6.71
COUNCIL EUROPE 4 3/4 98	250	87½		7.27
EEC 5 1/2 00	100	89⅝		7.10
EIB 6 1/2 98	400	98		6.87
ELEC DE FRANCE 7 1/4 06	100	101		7.13
FINLAND 5 3/8 93	150	94		7.13
GENERAL MOTORS 7 1/2 95	100	100⅞		7.39
JAPAN DEV BK 5 1/2 94	100	95½		7.66
KOBE 6 3/8 01	240	96½		6.87
[illegible]				

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Kuwait in $5bn deal for reconstruction

KUWAIT has turned to the international syndicated loans market for the first time in its history with a five-year $5bn loan. The deal marks the world's largest discretionary sovereign loan.

The money will help cover the cost of Kuwait's reconstruction, following the Iraqi invasion in August 1990 and *subsequent Gulf* war.

JP Morgan, which is co-ordinating the loan, has received verbal commitments for about $1.25bn already.

Although the Emir of Kuwait has decreed that up to $34bn may be raised both domestically and internationally, bankers believe that the $5bn loan represents the corner-stone of the State of Kuwait's activity in the Euromarket.

Mr Ahmad Abdul Qader Mohammad, director of Kuwait's debt management office in London, indicated that while further loans are possible in the future, Kuwait expects to have a clearer picture of its borrowing requirements by the spring.

However, bankers believe that separate Kuwaiti organisations will need to arrange financing; for example, Kuwait Airways will need to make financing arrangements to pay for replacement aircraft that it has ordered.

So far at least 20 of the banks that have had a close relationship with Kuwait over the years have been approached to participate in the $5bn loan to the state. Once these banks have made a commitment, the loan will be launched in general syndication in the names of these 20 or so lead managers.

This is expected to take place towards the end of October.

The margin is half a percentage point over the London interbank offered rate (Libor), while the management fees range from a minimum of 45 basis points to over 50 basis points, depending on the number of banks that eventually participate.

So far, JP Morgan says, the response has been "positive" from a range of US, European, Middle Eastern and Japanese banks. Even the UK banks – which were rumoured to have steered clear of Saudi Arabia's $4.5bn loan launched earlier this year – appear to be considering joining in the Kuwait deal.

Some bankers have described the margin as rather aggressive, although the Kuwaitis hope that the generous fees will encourage participation. Unlike Saudi Arabia, Kuwait carries the full risk weighting for capital adequacy requirements.

The loan has an average maturity of between four and a quarter and four and a half years. It is amortised in quarterly instalments after 36 months.

After the Gulf war, many bankers suggested that if Kuwait wanted to raise money in the syndicated loans market, it would have to opt for short-term financing because of the political risk. International bankers still wonder who will be running Kuwait in five years.

However, Mr Ahmad Abdul Qader Mohammad says: "According to our sounding of the market, we thought it might be difficult to raise more [than $5bn]. This has an acceptable life and meets our liquidity requirements."

Last month, Kuwait's oil revenues amounted to $300,000. However, Kuwait hopes to resume its pre-war oil production levels of 1.5m to 1.6m barrels per day by the end of 1992, and will then be in a stronger position to repay its debts.

Sara Webb

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	659.4	106.0	152.3	15,305.8
Prev	2,721.8	65.0	30.0	18,877.4
Other	4,455.3	0.0	38.6	10,898.3
Prev	3,989.0	0.0	1,303.2	8,440.5

Secondary Market

	Straights	Conv	FRN	Other
US$	18,309.8	912.2	3,089.2	11,105.2
Prev	24,337.2	938.0	13,392.5	13,203.1
Other	45,949.5	722.2	5,455.1	74,962.6
Prev	55,612.7	946.6	4,452.8	69,364.0

	Cedel	Euroclear	Total
US$	18,607.3	31,112.6	49,719.9
Prev	27,344.7	46,220.3	73,565.0
Other	51,471.0	91,010.6	142,481.6
Prev	54,841.6	89,267.2	144,108.8

Week to October 10, 1991

Source: AIBD

INTERNATIONAL BONDS

Investors await direction from Bangkok meetings

THE INTERNATIONAL bond market came to an abrupt halt late last week as participants waited for the outcome of G7, IMF and related meetings being held in Bangkok.

The annual meeting of finance ministers, and central and commercial bankers has generated the expectation of substantive decisions – or at least the vague promise of action – on several bond-sensitive economic issues.

By the end of this week, fixed-interest investors will hope to have a clearer idea of the future direction of currencies and interest rates on which to base fourth-quarter asset allocations.

The meetings are taking place against a background that most economists agree is generally positive for bonds.

The main reason for optimism among bond market practitioners is that the prospects for growth and inflation in the world's major economies look subdued. The conclusion is that governments will be forced into easing monetary conditions further, reducing bond yields and boosting bond prices – especially against a background of low inflation.

Different bond market economists point to different shreds of evidence for this. However, among the favourite statistics is that world monetary growth has fallen dramatically since 1987 and shows no sign of returning to an upward trend.

Economists at Warburg Securities point out that broad monetary growth in the main economies is actually negative for the first time since 1981 (see chart). Against this background, they say "it is far from clear that anyone can be confident about sustainable economic recovery".

However, while economic conditions are *generally* favourable for bonds, international investors must still decide what funds to allocate to which markets. Hence, statements by finance ministers in two main areas will attract attention:

- Veiled comments on exchange rates. In particular, the US administration is thought to favour a controlled depreciation of the dollar as a stimulus for domestic economic growth. However, so far the dollar has proved remarkably resilient. The US currency closed last week at DM1.69 and Y130, in spite of predictions of an early fall to around DM1.60 and Y120.

The future strength of the dollar is particularly important at this time, because many investors are overweight in the US currency following its appreciation from an historic low of DM1.45 at the start of this year.

Bond syndicate managers say a loss of confidence in the US currency could cause large-scale switching out of dollar assets and into European bonds, particularly D-Mark bonds.

The German government bond market *is already* benefiting from increased international investment. Bunds were one of the few bright spots in an otherwise lacklustre week. German government bond yields at the 10-year maturity fell to 8.25 per cent, from 8.45 per cent two weeks ago.

If there are signs that finance ministers are prepared to see a weaker dollar, the trickle of international buying could become a flood. This, in turn, would increase downward pressure on the dollar.

- The determination of individual governments to reduce, or at least control, budget deficits, and therefore borrowing, from the capital markets.

There have been fears among economists for over a year that the world economy is facing a global capital shortage. At one level, this is impossible, since savings and investment must always balance. However, economists are concerned that legitimate demands for capital – for eastern Europe, for example – can not be financed without sharply higher interest rates to *stimulate savings*.

The IMF has stressed this point, suggesting that there is a global savings shortage in the region of $100bn per year, a situation that may persist for the next five years.

In such circumstances, large-scale government borrowing by the G7 nations is likely to squeeze interest rates higher and "crowd out" private-sector borrowers wanting to finance expansion.

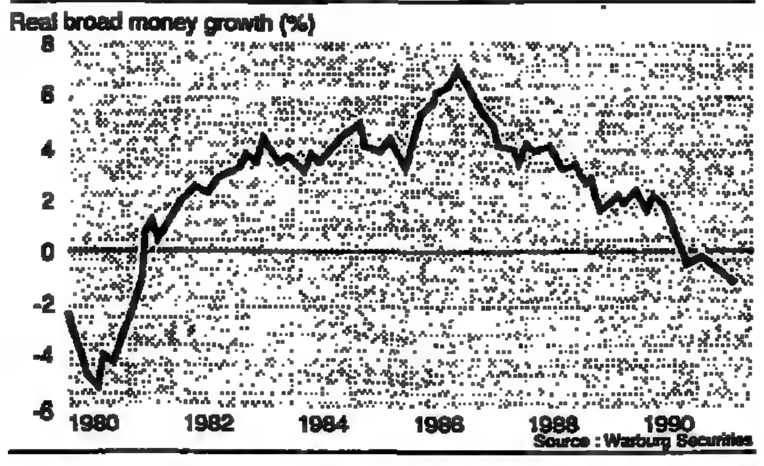
Economists point out that the world's two largest providers of capital, Germany and the US, are *financing domestic* government deficits rather than private-sector expansion.

The German budget deficit for this year, for example, now looks likely to be about DM130bn, with DM120bn borrowed from the capital markets. This is less than feared earlier in the year but has still added to the pressure for higher long-term interest rates. German interest rates are now at 9.5 per cent. However, signs that the German budget deficit is at least under control were one factor behind a healthy *bond market last* week.

Simon London

OECD money supply

Real broad money growth (%)



NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
British Gas Int.Fin.BV(b)†	1.5bn	2021	30	zero	8.77	Goldman Sachs	8.280
Province of Alberta†	1bn	1998	7	7⅝	99.32	Deutsche Bk Cap.Mkts.	7.753
Pac.Elec.Wire & Cable(g)§†	65	2001	10	3¾	100	J Henry Schroder Wagg	3.750
Prudential Finance BV†	300	2001	10	8¼	100.665	CSFB	8.122
Province of Ontario(k)†	750	2001	10	8	99.925	Morgan Stanley	8.011
LKB Baden Wurttemburg(k)†	200	2001	10	7⅞	99.23	JP Morgan	7.988
Medical Care Int.(m)§†	17.5	2006	15	6¾	100	CSFB	6.864
ECUs							
Morinaga Milk Industry(e)♦†	80	1995	4	6⅛	100	Nikko Secs.	6.125
Mitsubishi Materials Corp♦	300	1995	4	6⅛	100	Nikko Secs.	6.125
BHF Finance (Neth.) BV†	100	1996	5	9⅛	101	BHF-Bank	8.873
STERLING							
3i Group†	100	2001	10	10¾	101.26	Warburg Secs.	10.543
CANADIAN DOLLARS							
Ford Credit Canada†	100	1996	5	9⅝	101.30	ScotiaMcLeod Inc.	9.294
Montreal Trustco Inc.†	100	1996	5	9⅝	101.55	ScotiaMcLeod Inc.	9.231
Daimler-Benz Nth.America†	250	2001	10	9½	101.365	CSFB	9.288
FRENCH FRANCS							
Interfin.Credit Nat.(h)†	750	1993	1½	9⅛	99.66	Paribas Cap.Mkts.	9.367
Compagnie Bancaire(n)†	1.25bn	1993	1¼	(n)	100.855	CCF	8.840
D-MARKS							
ABN Amro Bank NV†	500	1996	5	8½	102	Trinkaus & Burkhardt	8.007
SWISS FRANCS							
Nippon Concrete Ind.(d)★★♦†	50	1995	-	4¾	100	Yamaichi Bk (Switz)	4.750
Sanko Sangyo(a)★★§†	25	1996	-	4½	100	SBC	4.551
Nippon Piston Ring(f)★★§†	60	1996	-	4¼	100	Credit Suisse	4.295
Tsukamoto Shoji(i)★★§†	30	1996	-	4¼	100	Nikko (Switz) Fin.	4.245
Small Business Fin.†	120	1996	-	7	101¾	UBS	6.584
Sanken Electric Co.★★♦	100	1995	-	4½	100	Credit Suisse	4.500
LIRE							
World Bank†	500bn	2001	10	10.80	101¼	Bca.Nazionale d'Lavoro	10.513
ESCUDOS							
Inter.Finance Corp†	11bn	1996	5	12	100⅛	Deutsche Bk d'Invest.	11.966
PESETAS							
Kred'stalt F.Wied'bau(j)†	10bn	1996	5	11¼	101½	Bco.Com.Transat'co	10.858
GUILDERS							
Ned.Investeringsbk.(c)†	150	2006	15	8¾	100½	ABN Amro	8.690
SWEDISH KRONOR							
Volvo Gp.Fin.Sweden AB†	300	1995	4	11	101½	Skan'viska Ensk.Bken.	10.531
YEN							
Province of Quebec†	50bn	2001	10	6¼	99.95	IBJ Int.	6.257
Toyo Ink Manufacturing†	15bn	2002	10¼	7	101⅝	Nikko Secs.	6.776
LUXEMBOURG FRANCS							
Belgelectric Fin.BV†	1bn	1996	5	9¼	102.20	Bque.Paribas (Lux)	8.698
CL Belgium Fin SA★★†	1bn	1996	5	9¼	101¾	Credit Lyonnais (Lux)	8.810
Postipankki†	1bn	1998	7	9⅜	102.30	Credit Europeen	8.926
Banque UCL(l)★★†	1bn	1994	2⅓	9⅝	101.93	Banque UCL	8.638
GMAC Continental★★†	500	1994	3	[illegible]	102.10	KBL	8.937

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. ♦Variable rate notes. †Final terms. a) Put option 30/9/93 at 105⅞% to yield 7.38%. Conversion premium fixed at 2.5%. b) Selling concession fee - 0.15. Non-callable. c) Full name of borrower - Nederlandse Investeringsbank Voor Ontwikkelingslanden NV. Early redemption from 5/11/2001 at 102%. d) Callable 17/4/93 at 101¼% declining ¼% semi-annually. Exercise premium fixed at 2.58%. e) Exercise premium fixed at 2.8%. Non-callable. f) Put option 31/3/94 at 109⅛% to yield 7.439%. Coupon payable semi-annually. Conversion premium fixed at 2.5%. g) Callable from 1995 at 103% (subject to 130% rule) increasing to 165% in year nine. Put option at 131.42% from 1998 to 2000 to yield 9%. Conversion premium fixed at 9.804%. h) Fungible with existing FFr1.5bn deal. Selling concession fee - 0.12. i) Put option 31/3/94 at 108⅛% to yield 7.613%. Conversion premium fixed at 2.5%. j) Matador issue. Non-callable. k) Yankee issue. Non-callable. l) Amount increased from LFr750m. Non-callable. m) Callable 1/10/94 at 103¾% declining to par. Coupon payable semi-annually. Conversion premium fixed at 21.03%. n) Single long coupon payment at redemption of 12% equivalent to an annual coupon of 9.6%. Non-callable. Note: Yields are calculated on AIBD basis.

WORLD STOCK MARKETS

AUSTRIA

1991 High	Low	October 11	Price Sch
3,710	2,210	Austrian Airlines ...	2,460
703	488	Creditanstalt ...	502
4,368	2,838	EA General ...	3,125
902	583	EVN ...	842
11,521	6,656	Jungbunzlauer ...	9,750
1,039	799	OeMV ...	977
1,920	1,129	Perlmooser Zement ...	1,700
966	550	Radex Heraklith	610
2,300	1,480	Reininghaus Brau ...	1,750
499	276	Steyr Daimler ...	318
869	367	Veitscher Magnesit ...	367
564	445	Verbund (Br) A ...	497
6,135	4,268	Wienerberger ...	5,230
948	945	Z-Laenderbank ...	948

BELGIUM/LUXEMBOURG

1991 High	Low	October 11	Price Frs.
3,020	1,895	ACEC-Union Min	1,950
4,720	2,750	Arbed ...	4,300
3,210	2,280	BBL ...	2,800
12,800	10,000	Bank Intl a Lux ...	10,900
12,900	12,200	Banq Gen Lux Pts ...	12,250
1,505	892	Barco ...	956
9,950	6,530	Bekaert ...	9,560
8,420	5,260	CBR Ciment ...	7,970
5,560	4,530	Cobepa ...	4,950
5,700	4,600	Cobepa AFV 1 ...	4,900
[illegible]	[illegible]	[illegible]	[illegible]

FRANCE (continued)

1991 High	Low	October 11	Price Frs.
759	514	Beghin-Say ...	610
592	419	Beghin-Say Cert Inv ...	448
2,778	2,120	Bongrain ...	2,391
642	412	Bouygues ...	596
1,201	765	CGIP ...	1,014
159.90	92.10	C M B Packaging ...	143.10
1,130	785	Canal+ ...	1,047
404	277	Cap Gemini S ...	295.40
2,140	1,553	Carrefour ...	2,038
157.90	117.10	Casino ...	146
645	325	Cetelem ...	615
962	637	Chargeurs ...	930
530	383	Club Mediterranee ...	453.50
400	301	Cogifi ...	344
590	560	Coparex ...	590
184.90	133	C C F ...	172.90
1,294	801	Cr Fonc France ...	1,062
689	448	Cred Lyon (CI) ...	538
1,289	920	Credit National ...	1,205
2,310	1,649	Damart ...	2,035
416	335	Docks de France ...	350.40
433	245	Dollfus Mieg Cie ...	327
906	680	EBF ...	744
2,725	2,050	Eaux Cie Genl ...	2,391
423	258	Ecco ...	364
412	248	Elf-Aquitaine ...	404.50
274	191	Elf-Aquitaine Certs ...	263
429	285	Essilor Intl ...	329
2,240	1,310	Etex ...	1,810
1,829	1,270	Euro France ...	1,509
[illegible]	[illegible]	[illegible]	[illegible]

GERMANY (continued) [illegible]

NETHERLANDS [illegible]

SWEDEN (continued) [illegible]

SWITZERLAND [illegible]

DENMARK [illegible]

FINLAND [illegible]

FRANCE [illegible]

ITALY [illegible]

NORWAY [illegible]

SPAIN [illegible]

SOUTH AFRICA [illegible]

SWEDEN [illegible]

JAPAN [illegible]

AUSTRALIA [illegible]

HONG KONG [illegible]

MALAYSIA [illegible]

SINGAPORE [illegible]

Price data supplied by Telekurs.

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO

4.00 pm prices October 11

Quotations in cents unless marked $

Sales	Stock	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
500	Canamax	27	27	27	
1100	Cantor	$22	21¾	21¾	+⅛
400	CnPcForest	$28¼	28¼	28	+¼
45600	Cara Op	$5⅛	5⅛	5⅛	−⅛
4700	Cascades	$5¾	5⅞	5¾	+⅛
12100	Celanese	$38⅜	38⅜	38⅜	+⅛
700	Cntrl Cap	140	140	140	−30
4000	Cineplx Odn	395	365	395	+10
200	Cntrl Fd A	440	440	440	−5
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
500	Reed Sten	$22½	22½	22½	+¼
100	Rejean S x	518	18	18	
108200	Renaissance	$13⅞	13¾	13⅞	+⅛
2900	Repap Ent	500	485	500	+15
1700	Rio Algom	$15⅞	15⅝	15⅞	+¼
235700	RogersComB	$11⅝	11½	11½	+⅛
200	Rothmans	$72⅝	72⅝	72⅝	−⅜
99000	RoyalBkCan	$26½	26¼	26½	+¼
538600	Ryl Oak Mn	90	80	90	+8

MONTREAL

4.00 pm prices October 11

[illegible]

Total Sales 11,256,900 shares

INDICES

NEW YORK

DOW JONES	Oct 11	Oct 10	Oct 9	Oct 8	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Industrials	2993.58	2976.52	2946.35	2963.77	[illegible]	[illegible]	[illegible]	41.22
Home Bonds	97.03	97.06	97.15	97.27	[illegible]	[illegible]	[illegible]	54.99
Transport	1217.12	1205.46	1182.92	[illegible]	[illegible]	[illegible]	[illegible]	12.32
Utilities	211.62	211.05	211.50	212.82	[illegible]	[illegible]	[illegible]	10.50

Day's High 3000.99 (2995.47) Low 2957.51 (2930.23)

STANDARD AND POOR'S

	Oct 11	Oct 10	Oct 9	Oct 8	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	381.45	380.55	376.80	[illegible]	[illegible]	[illegible]	[illegible]	4.40
Industrials	450.58	449.59	445.37	[illegible]	[illegible]	[illegible]	[illegible]	3.62
Financial	30.77	30.57	30.11	30.58	32.24	[illegible]	[illegible]	8.64
NYSE Composite	210.07	209.55	207.95	209.73	[illegible]	[illegible]	[illegible]	4.46
Amex Mkt. Value	369.6	368.59	362.51	365.19	[illegible]	[illegible]	[illegible]	29.31
NASDAQ Composite	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Oct 4	Sep 27	Sep 20	Year ago (approx)
Dow Industrial Div. Yield	3.12	[illegible]	[illegible]	[illegible]

	Oct 9	Oct 2	Sep 25	Year ago (approx)
S & P Industrial div. yield	[illegible]	[illegible]	[illegible]	[illegible]
S & P Ind. P/E ratio	[illegible]	[illegible]	[illegible]	[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

TRADING ACTIVITY

[illegible]

CANADA TORONTO

	Oct 11	Oct 10	Oct 9	Oct 8	1991 HIGH	1991 LOW
Metals & Minerals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Composite	3375.43	3345.08	3339.50	3353.71	3522.27 [illegible]	3161.95 (15/1)
MONTREAL Portfolio	1798.78	1791.72	1772.41	1776.52	1903.56 (7/6)	1656.69 (9/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable

	Oct 11	Oct 10	Oct 9
AUSTRALIA			
All Ordinaries (1/1/80)	1555.5	1556.1	1571.2
All Mining (1/1/80)	616.3	616.8	636.0
AUSTRIA			
Credit Aktien (30/12/84)	429.56	432.44	437.32
BELGIUM			
BEL20 (1/1/90)	1109.58	1104.22	1099.35
DENMARK			
Copenhagen SE (3/1/83)	357.78	357.11	357.41
FINLAND			
HEX General (28/12/90)	853.9	851.6	851.1
FRANCE			
CAC General (31/12/81)	498.75	488.95	490.68
CAC 40 (31/12/87)	1833.82	1843.64	1843.43
GERMANY			
FAZ Aktien (31/12/58)	647.46	643.87	650.56
Commerzbank (1/12/53)	1820.0	1809.2	1827.5
DAX (30/12/87)	1568.42	1567.95	1567.22
HONG KONG			
Hang Seng Bank (31/7/64)	4017.98	4056.22	4076.38
IRELAND	[illegible]	[illegible]	[illegible]
ITALY	[illegible]	[illegible]	[illegible]
JAPAN	[illegible]	[illegible]	[illegible]
MALAYSIA	[illegible]	[illegible]	[illegible]
NETHERLANDS	[illegible]	[illegible]	[illegible]
NORWAY	[illegible]	[illegible]	[illegible]
PHILIPPINES	[illegible]	[illegible]	[illegible]
SINGAPORE	[illegible]	[illegible]	[illegible]
SOUTH AFRICA	[illegible]	[illegible]	[illegible]
SOUTH KOREA	[illegible]	[illegible]	[illegible]
SPAIN	[illegible]	[illegible]	[illegible]
SWEDEN	[illegible]	[illegible]	[illegible]
SWITZERLAND	[illegible]	[illegible]	[illegible]
TAIWAN	[illegible]	[illegible]	[illegible]
THAILAND			
Bangkok SET (30/4/75)	639.08	644.60	634.76
WORLD			
M.S. Capital Intl. (1/1/70) (S)	513.8*	514.0*	511.7

*Saturday October 5: Taiwan Weighted Price: [illegible]

‡ Subject to official recalculation.

Base values of all indices are 100 except: BEL20, HEX General, [illegible] JSE 25 Industrials – 264.3 and Australia All Ordinary and Mining – [illegible]

TOKYO – Most Active Stocks

Friday 11 October 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Meiji Seika	5.4m	1,160	-50	Mitsui	3.2m	834	+10
Nissan Chem	4.6m	946	-35	Ajinomoto	3.0m	1,700	-20
Penta-Ocean	3.6m	1,030	+56	Teikoku Oil	2.8m	980	-20
Nippon Steel	3.4m	418	+8	Tokyo Gas	2.6m	603	+6
Nippon Mining	3.2m	603	-5	Cosmo Oil	2.4m	813	+8

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AUTHORISED UNIT TRUSTS

For MIM Britannia see INVESCO MIM

Morgan Grenfell Unit Tst Mgrs Ltd (1000)H
20 Finsbury Circus, London EC2M 1UT
Dealers: 071-826 0826 Enquiries: 071-826 0123

American Gwth	5¼	164.6	164.6	175.8	0.81	41048
European Gth Inc	5¼	194.6	194.6	207.5	0.00	[illegible]
European Gth Acc	5¼	194.6	194.6	207.5	0.00	41049
Intl Gwth	5¼	144.4	144.4	153.8	0.00	[illegible]
UK Equity Inc	5¼	115.2	115.2	123.6	6.51	[illegible]
UK Equity Acc	5¼	133.6	133.6	143.4	6.51	41047
UK Ind Tracker Inc	5	124.1	124.1	132.5	3.69	[illegible]
UK Ind Tracker Acc	5	134.9	134.9	144.1	3.69	[illegible]
US Eq Ind Tracker Inc	5	140.7	140.7	150.2	2.99	[illegible]
US Eq Ind Tracker Acc	5	146.1	146.1	156.7	2.99	[illegible]
Japan Tracker	5	65.95	65.95	69.93	0.00	[illegible]
Asian Trader	5¼	79.25	79.25	85.27	0.83	[illegible]
Managed Inc	5¼	100.8	100.8	108.4	1.93	[illegible]
Managed Acc	5¼	102.4	102.4	110.2	1.93	[illegible]
Cash Inc	0	100.8	100.8	100.8	10.55	[illegible]
Cash Acc	0	111.26	111.26	111.26	10.55	[illegible]
Europa	5¼	103.8	103.8	111.0	0.00	43122

For Geoffrey Morley see Commercial Union

Guide to pricing of Authorised Unit Trusts
Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often well above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♠) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation.
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Sovereign Unit Tst Mngrs Ltd (1000)F						
12 Christchurch Rd, Bournemouth 0202 298422						
Cash	1	51.32	51.32	51.83	10.[illegible]	[illegible]
Charities Pension	5½	48.13	48.42	51.64	9.24	[illegible]
Ethical	5½	49.49	50.49	53.71	4.69	[illegible]
European Growth	5½	46.99	46.99	50.12	2.5	–
Income	5½	47.38	47.92	51.11	7.33	[illegible]
Intl Growth	5½	64.00	64.46	68.76	3.3[illegible]	[illegible]
Managed	5½	58.54	58.22	63.17	[illegible]	[illegible]
UK Growth	5½	51.54	52.19	55.6[illegible]	[illegible]	[illegible]
Standard Chartered Equitor (1200)F						
69 Old Broad Street EC2M 1QS 071-390 6521						
Mngd Exempt Acc	3	195.8	198.1	206.3	2.98	[illegible]
Do Income	3	186.9	189.1	196.9	2.98	[illegible]
Standard Life Tst Mgmt Ltd (0629)H						
3 George St, Edinburgh EH2 2XZ 0800 393777						
Managed Acc	5¼	36.04	36.04	38.39	2.24	[illegible]
UK Equity Gth Acc	5¼	48.28	49.14	52.22	[illegible]	[illegible]
UK Eq High Inc Inc	5¼	33.17	33.94xd	36.07	5.65	[illegible]
UK Eq High Inc Acc	5¼	37.30	38.16	40.55	5.65	[illegible]
UK Equity Gen Acc	5¼	46.66	47.41	50.38	3.11	[illegible]
UK Equity Gen Inc	5¼	36.51	37.10xd	39.4[illegible]	3.11	[illegible]
UK Larger Cos Acc F	7½	302.1	306.1	332.2	[illegible]	[illegible]
UK Larger Cos Inc F	7½	243.2	246.5xd	267.5	[illegible]	[illegible]
Gilt & Fxd Int Inc	5¼	27.16	27.23xd	28.80	3.27	[illegible]
Cont Lrg Cos Acc F	7½	215.1	219.3	238.0	2.13	[illegible]
Nth American Acc	5¼	34.31	34.50	36.66	0.77	[illegible]
Far East Acc	5¼	42.45	43.53	46.26	0.19	[illegible]
European Acc	5¼	32.99	34.67	36.84	1.21	[illegible]
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh 031-226 3271						
American	5	291.4	291.4	311.3	1.36	[illegible]
(Accum Units)	5	340.9	340.9	364.2	1.36	[illegible]
British	5	817.2	827.2	875.1	5.47	[illegible]
(Accum Units)	5	1342.6	1359.0	1437.7	5.47	[illegible]
European	5	320.0	320.0xd	340.8	1.53	[illegible]
(Accum Units)	5	346.8	346.8	369.4	1.53	[illegible]
Japan	5	119.7	119.7	127.2	–	[illegible]
(Accum Units)	5	120.6	120.6	128.2	–	[illegible]
New Pacific	5	166.2	166.2	176.8	1.98	[illegible]

	Bid Price	Offer Price	Yield Gross	City-line
Funds in Court*				
Capital Oct 3	496.84	500.56xd	2.82	40505
Gross Oct 3	190.05	191.58	10.18	40506
High Yield Oct 3	300.29	302.61	7.27	40507
* Restricted to monies under Court control				
Henderson Unit Trust Management Ltd				
Pensions Mngd	52.66	53.76xd	3.70	40676
INVESCO MIM Management Ltd				
Exempt Funds				
Intl Mngd P Folio	1205.0	1298.0	–	46964
Mngd Pens (Acc)	70.3	74.9	–	41007
Lazard Brothers & Co. Ltd				
Property Sept 5	£2,440.0	2,680.0	6.00	40777
Inc Gth Prp Apr 16	£1,325.0	1,460.0	7.20	40778
Lazard Investors Ltd ⇔				
Exempt Funds				
Small Cos Oct 10	£3937.1	4103.9	3.96	40766
European Oct 10	£536.2	541.9	2.09	40776
American Oct 10	£353.4	357.2	2.27	40773
Japan Oct 10	£551.4	537.1	1.21	40774
Pacific Oct 10	£139.3	142.9	1.94	40775
Jt Midlands Sep 30	£147.60	164.90	2.48	40771
Local Authorities Mutual Invest. Tst.*				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Property Sep 30	193.05	196.90	7.81	40825
Equity Sep 30	893.70	906.28	3.99	40826
* Available only to Local Authorities				
M & G Securities Ltd				
Charibond Oct 10	103.43		10.42	40883
(Accum Units)	394.3		10.42	40884
SAAGIF Oct 8	43.24		9.09	46917
Morgan Grenfell Unit Trust Managers Ltd				
Exempt Funds				
UK Equity † Oct 8	127.8	139.0	3.69	46925
UK Small Co † Oct 8	550.4	598.2	3.36	46926

INSURANCES

OTHER UK UNIT TRUSTS

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Baring International Fd Mngrs (Ireland) Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Australia	$16.42	17.25	1.05	44759
Japan Tech	$63.11	66.27	-	44762
Japan Fund	$26.33	27.65	0.17	44763
Japan New Gen Fd	$20.44	21.47	-	44764
Malay Sing	$49.79	52.28	0.31	44765
Nth American	$21.43	22.51	0.58	47418
Octopus Fund	$20.97	22.02	0.88	44766
Pacific Fd	$63.31	66.48	-	44767
International Bond	$17.32	18.19	6.89	44769
Europe Fund	$13.38	14.05	-	47191
British Screen Fd	10.94	0.99	-	47190
Tristar Warrant	$10.07	10.58	-	47419
Hong Kong	$49.64	52.13	3.09	44761
Mngd Portfolio (Stlg)	£4.18	4.50	-	47319
Mngd Portfolio (Dlr)	$10.17	10.73	-	47318
Currency Fd-Sterling	£19.50		-	44755
Currency Fd-US Dollar	$15.36		-	44754
Curr Fd-Deutschemark	DM40.53		-	44756
Curr Fd-Managed $	$44.85	47.09	-	44758

Federated International Funds Plc
Federated Short-term US Gov't Securities Fund

	Bid Price	Offer Price	Yield Gross	City-line
Institutional Ser Series*	$1.00		5.27	40562
Investment Series*	$1.00		5.27	40563

* Annualised Yield

Midland Bank Fund Managers (Jersey) Ltd
PO Box 26, St Helier, Jersey 0534 606000

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Intl Circuit Portfolio	6	[illegible]	1.0050	1.0656	1.65	43027
Gilt	3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

For MIM see INVESCO MIM

Royal Trust Jsy Fd Mngt Ltd (1400)F
PO Box 428, St Helier, Jersey 0534 76077

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Govt Secs Fd	4	56.38	56.38xd	58.72	9.54	45734

TSB Trust Funds (CI)
PO Box 538, St Helier, Jersey 0534 73494

TSB Offshore Investment Fund Ltd

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Stg Deposit Class	3	101.56	101.56xd	104.61	10.00	45837
Gilt & Fixed Interest	3	104.33	104.33xd	108.18	7.95	[illegible]
Blue Chip & Gilt Eqty	5	50.80	50.80xd	54.06	3.70	45836
International Bond	5	109.27	109.27xd	115.74	5.53	43492
UK Equity	5	138.18	138.18xd	149.74	0.92	47672
International Equity	5	117.26	117.26xd	125.33	0.00	43569
Far Eastern	5	92.63	92.63xd	99.08	0.00	43461
European	5	86.26	86.26xd	91.26	0.00	43460
Pan American	5	144.07	144.07xd	153.30	0.00	43570

TSB Gilt Fund Ltd

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Quarterly Share	3	96.78	96.78xd	100.01	10.34	45833
Monthly Share	3	96.42	96.42xd	99.62	10.34	45834

ISLE OF MAN (SIB RECOGNISED)

Allied Dunbar Intl Fund Mgrs (1600)F
Lord Street, Douglas, IoM 0624 661551

JERSEY (REGULATED)(**)

Barclays Intl Funds

LUXEMBOURG (SIB RECOGNISED)

Abbey Global Investment Fund (u)
41 Ave de la Gare, L-1611, Luxembourg

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Political factors undermine sterling

The bout of jitters in the sterling markets last week came as a surprise to many operators. This was the first time in months that domestic political factors had begun to influence currency dealing. Over the summer, Labour had a larger lead but sterling was unmoved.

The reason for the importance of politics now is partly a growing awareness that time is running out for the government. An election must be called by June 1992.

International investors were initially reassured that there would not be a general election in November. But there is now a feeling in the markets that Mr Major's move was a sign of weakness. Furthermore, the contrast between the Labour party conference, which was united, and the Conservatives', where divisions were more apparent, has unsettled international fund managers.

The other reason why the currency markets have begun to worry about political considerations is that UK interest rates have fallen sharply, while in Germany they have edged higher. Interest rates no longer provide the support they did twelve months ago; now it is the threat of intervention by the Bank of England which underpins the pound.

The currency market still expects the government to be able to deliver another ½ point cut in rates this year. The futures market was also discounting 10 per cent base rates by the yearend.

But the money markets are more cautious. Sentiment swung strongly last week against an early rate cut. A period of sterling stability will be needed before a further cut in base rates can occur.

UK clearing bank base lending rate 10.5 per cent from September 4, 1991

£ IN NEW YORK

Oct 11	Close	Previous Close
£ Spot	1.7230-1.7240	1.7148-1.7158
1 month	0.77-0.75pm	0.77-0.75
3 months	2.07-2.05pm	2.08-2.05pm
12 months	7.12-7.05pm	7.14-7.04pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Oct 11	Previous
8.30 am	90.3	90.3
9.00 am	90.2	90.3
10.00 am	90.3	90.2
11.00 am	90.3	90.3
Noon	90.3	90.3
1.00 pm	90.3	90.3
2.00 pm	90.3	90.3
3.00 pm	90.3	90.4
4.00 pm	90.4	90.3

CURRENCY MOVEMENTS

Oct 11	Bank of England Index	Morgan** Guaranty Changes %
Sterling	90.4	-21.1
U.S. Dollar	64.5	-14.8
Canadian Dollar	106.6	+4.9
Austrian Schilling	109.0	+11.5
Belgian Franc	110.6	-2.4
Danish Krone	108.4	+3.2
D-Mark	117.0	+23.8
Swiss Franc	109.0	+17.8
Dutch Guilder	113.3	+15.5
French Franc	102.0	-13.6
Lira	98.4	-19.9
Yen	143.6	+76.5

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Oct 10

OTHER CURRENCIES

Oct 11	£	$
Argentina	16938.9 - 16965.9	9900.00 - 9910.00
Australia	2.1530 - 2.1550	1.2550 - 1.2560
Brazil	973.500 - 974.580	567.800 - 568.100
Finland	7.1130 - 7.1365	4.1420 - 4.1450
Greece	320.650 - 325.800	186.870 - 189.860
Hong Kong	13.2760 - 13.2925	7.7410 - 7.7430
Iran	115.50*	67.00*
[illegible]	[illegible]	[illegible]

*Selling rate.

CURRENCY RATES

Oct 11	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling	–	0.703649	0.703649
U.S. Dollar	5.00	1.36505	1.20430
Canadian $	8.46	1.54264	1.36025
Austrian Sch	7.50	16.1840	14.4106
Belgian Franc	8.00	47.4867	42.1714
Danish Krone	9.50	8.88852	7.89416
D-Mark	7.50	2.29793	2.04791
Dutch Guilder	8.00	2.59155	2.30743
[illegible]	[illegible]	[illegible]	[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

Oct 11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7085 - 1.7245	1.7190 - 1.7200	0.76-0.74cpm	5.23	2.08-2.05pm	4.80
Canada	1.9320 - 1.9425	1.9410 - 1.9420	0.39-0.32cpm	2.19	1.05-0.94pm	2.05
Netherlands	3.2705 - 3.2875	3.2775 - 3.2875	⅜-⅛cpm	1.14	⅜-½pm	0.76
Belgium	59.70 - 60.05	59.85 - 59.95	10-5cpm	1.50	19-13pm	1.07
Denmark	11.1865 - 11.2325	11.2100 - 11.2200	1-⅜orepm	0.74	2¼-1¼pm	0.60
Ireland	1.0870 - 1.0885	1.0870 - 1.0880	0.02-0.07pdis	-0.50	0.02-0.11dis	-0.22
Germany	2.9060 - 2.9130	2.9075 - 2.9125	⅜-¼pfpm	1.29	¼-⅛pm	0.86
Portugal	249.00 - 250.70	249.70 - 250.70	10-55cdis	-1.56	113-188dis	-2.41
Spain	183.40 - 184.20	183.60 - 183.90	9-37cdis	-1.50	87-106dis	-2.09
Italy	2169.45 - 2177.75	2176.75 - 2177.75	par-2liredis	-0.55	5-7dis	-1.10
Norway	11.3565 - 11.3935	11.3825 - 11.3925	½-⅛orepm	0.40	⅜-½pm	0.15
France	9.8960 - 9.9345	9.9175 - 9.9275	1-⅜cpm	1.06	2¼-1¼pm	0.81
Sweden	10.5740 - 10.6210	10.6000 - 10.6100	par-⅝oredis	-0.35	1-1¾dis	-0.52
Japan	222.35 - 223.75	222.75 - 223.75	⅞-⅝ypm	3.70	2-1¾pm	3.47
Austria	20.42 - 20.49	20.46 - 20.49	2¼-1¼gropm	1.06	4½-2¼pm	0.66
Switzerland	2.5430 - 2.5550	2.5450 - 2.5550	½-⅜cpm	2.06	1¼-1¼pm	1.86
Ecu	1.4145 - 1.4240	1.4195 - 1.4205	0.10-0.05cpm	0.63	0.16-0.09pm	0.35

Commercial rates taken towards the end of London trading. Six-month forward dollar 3.89-3.84cpm. 12 Month 7.12-7.02pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Oct 11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7085 - 1.7245	1.7190 - 1.7200	0.76-0.74cpm	5.23	2.08-2.05pm	4.80
Ireland†	1.5710 - 1.5805	1.5775 - 1.5785	0.64-0.59cpm	4.68	1.84-1.74pm	4.54
Canada	1.1280 - 1.1300	1.1290 - 1.1300	0.30-0.33cdis	-3.35	0.76-0.81dis	-2.78
Netherlands	1.9000 - 1.9185	1.9080 - 1.9090	0.64-0.67cdis	-4.12	1.84-1.89dis	-3.91
Belgium	34.80 - 35.05	34.80 - 34.90	10.80-12.80cdis	-4.06	31.00-36.00dis	-3.85
Denmark	6.5030 - 6.5625	6.5200 - 6.5250	2.30-2.60oredis	-4.51	6.55-7.15dis	-4.20
Germany	1.6860 - 1.7035	1.6920 - 1.6930	0.57-0.58cdis	-4.08	1.68-1.70dis	-3.99
Portugal	145.55 - 145.95	145.85 - 145.95	78-85cdis	-6.70	263-278dis	-7.42
Spain	106.50 - 107.60	106.85 - 106.95	65-71cdis	-7.63	182-192dis	-7.00
Italy	1262.50 - 1273.75	1266.00 - 1266.50	6.00-6.50liredis	-5.92	18.10-19.10dis	-5.88
Norway	6.6160 - 6.6600	6.6200 - 6.6250	2.65-2.95oredis	-5.07	7.75-8.25dis	-4.83
France	5.7450 - 5.8025	5.7675 - 5.7725	1.96-2.01cdis	-4.13	5.72-5.82dis	-4.00
Sweden	6.1435 - 6.9095	6.1650 - 6.1700	2.70-2.95oredis	-5.50	7.95-8.40dis	-5.30
Japan	129.50 - 130.10	129.70 - 129.80	0.16-0.17ydis	-1.53	0.34-0.35dis	-1.06
Austria	11.8900 - 11.9700	11.9200 - 11.9250	3.90-4.30grodis	-4.13	11.70-13.00dis	-4.14
Switzerland	1.4760 - 1.4925	1.4825 - 1.4835	0.37-0.38cdis	-3.03	1.04-1.07dis	-2.85
Ecu	1.2015 - 1.2110	1.2090 - 1.2100	0.48-0.44cpm	4.56	1.36-1.29pm	4.38

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

Oct.11	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	ECU
£	1	1.720	2.910	223.3	9.923	2.550	3.283	2177	1.942	59.90	1.420
$	0.581	1	1.692	129.8	5.769	1.483	1.909	1266	1.129	34.83	0.826
DM	0.344	0.591	1	76.74	3.410	0.876	1.128	748.1	0.667	20.58	0.488
YEN	4.478	7.703	13.03	1000	44.44	11.42	14.70	9749	8.697	268.2	6.359
F Fr.	1.008	1.733	2.933	225.0	10.	2.570	3.308	2194	1.957	60.36	1.431
S Fr.	0.392	0.675	1.141	87.57	3.891	1	1.287	853.7	0.762	23.49	0.557
H Fl.	0.305	0.524	0.886	68.02	3.023	0.777	1	663.1	0.592	18.25	0.433
Lira	0.459	0.790	1.337	102.6	4.558	1.171	1.508	1000.	0.892	27.51	0.652
C$	0.515	0.886	1.498	115.0	5.110	1.313	1.691	1121	1	30.84	0.731
B Fr.	1.669	2.871	4.858	372.8	16.57	4.257	5.481	3634	3.242	100.	2.371
ECU	0.704	1.211	2.049	157.3	6.988	1.796	2.312	1533	1.368	42.18	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

Oct 11	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	10⅛ - 10⅞	10⅜ - 10½	10⅜ - 10½	10⅜ - 10⅞	10¼ - 10⅜	10¼ - 10⅜
US Dollar	5¼ - 5⅛	5⅜ - 5⅜	5⅜ - 5⅜	5½ - 5⅜	5½ - 5⅜	5⅞ - 5⅞
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

Treasury Bills (sell); one-month 10⅛ per cent; three months 9⅞ per cent; six months 9⅞ per cent; Bank Bills (sell): one-month 10⅛ per cent; three months 9⅞ per cent; Treasury Bills: Average tender rate of discount 9.8476 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day September 30, 1991. Agreed rates for period Oct.26, 1991 to November 25, 1991, Scheme I: 11.70 p.c., Schemes II & III: 11.64 p.c. Reference rate for period August 31, 1991 to September 30, 1991, Scheme IV&V: 10.351 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 11 from September 1, 1991: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7 per cent; one-three months 9½ per cent; three-six months 9 per cent; six-nine months 9 per cent; nine-twelve months 9 per cent; Under £100,000 7 per cent from Sept 5, 1991, Deposits withdrawn for cash 5 per cent.

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

3 Mth. Treasury Bill	9⅞		One mth. Interbank	9.0750	Unch'd
1 Mth. Bank Bills	10⅛		Three month	9.2750	Unch'd
3 Mth. Bank Bills	10		PARIS		
TOKYO			Intervention Rate	9¼	Unch'd
One month Bills	6⅞	Unch'd	One mth. Interbank	9⅜	
Three month Bills	6½		Three month	9⅜	
BRUSSELS			MILAN		
One month	9⅜		One month	11⅛	
Three month	9⅜		Three month	11⅛	
AMSTERDAM			DUBLIN		
One month	9.165	Unch'd	One month	10⅛	Unch'd
Three month	9.28	+1.5	Three month	10⅛	Unch'd

CHICAGO

PHILADELPHIA SE £/$ OPTIONS

Strike Price	Calls Oct	Calls Nov	Calls Dec	Calls Mar	Puts Oct	Puts Nov	Puts Dec	Puts Mar
1.675	4.50	4.97	5.35	6.31	-	1.01	1.95	4.45
1.700	2.10	3.21	3.80	4.93	-	1.86	2.91	5.66
1.725	0.02	1.96	2.58	3.85	0.35	3.08	4.27	7.14
1.750	0.02	1.10	1.72	2.92	3.72	4.75	5.90	8.71
1.775	-	0.55	1.07	2.23	5.22	6.71	7.71	10.49
1.800	-	0.23	0.53	1.54	7.67	8.83	10.76	12.40
1.825	-	0.06	0.33	1.18	10.17	11.15	11.96	14.42

Previous day's open int. Calls 347,606 Puts 435,837 (All currencies)
Previous day's volume: Calls 14,321 Puts 25,403 (All currencies)

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY OCTOBER 11 1991 US Dollar Index	% chg ($) since 31/12/90	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/90	Gross Div. Yield	THURSDAY OCTOBER 10 1991 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1991 High	1991 Low	Year ago (approx)
Australia (69)	150.08	+27.1	129.40	123.09	132.06	125.32	+23.1	4.85	150.04	129.67	123.63	132.14	125.54	153.54	112.74	127.69
Austria (20)	168.98	-14.1	145.70	138.60	148.69	148.77	-2.7	1.92	170.96	147.75	140.87	150.57	150.48	222.37	154.82	194.33
Belgium (47)	129.97	-1.7	112.06	106.59	114.36	111.70	+10.7	5.31	128.75	111.27	106.08	113.39	110.81	151.20	118.04	133.56
Canada (114)	135.59	+4.3	116.91	111.20	119.30	110.90	+1.5	3.42	134.36	116.12	110.70	118.32	109.99	142.27	126.49	123.83
Denmark (37)	249.17	+7.1	214.84	204.37	219.25	221.05	+20.9	1.59	247.98	214.32	204.33	218.40	220.50	270.56	217.74	249.39
Finland (15)	84.27	-18.3	72.66	69.12	74.15	73.28	-6.6	3.32	85.47	73.86	70.42	75.27	73.75	125.15	84.05	100.75
France (109)	139.02	+5.5	119.86	114.01	122.31	125.82	+19.7	3.53	139.67	120.71	115.08	123.00	126.42	152.26	118.11	135.78
Germany (65)	105.71	-5.5	91.15	86.71	93.01	93.01	+6.9	2.41	104.96	90.70	86.48	92.43	92.43	125.35	94.15	114.89
Hong Kong (55)	166.14	+36.4	143.25	136.26	146.20	165.14	+35.4	4.42	167.81	145.03	138.27	147.80	166.86	169.96	119.62	118.61
Ireland (18)	156.48	+5.4	134.92	128.34	137.69	139.73	+18.7	3.58	155.40	134.30	128.04	136.86	138.94	182.46	132.88	152.90
Italy (77)	69.25	-11.6	59.71	56.79	60.93	65.49	-0.7	3.54	69.26	59.86	57.07	61.00	65.49	88.23	64.76	83.86
Japan (474)	141.24	+13.2	121.78	115.84	124.30	115.84	+8.3	0.73	141.09	121.94	116.25	124.28	116.25	146.97	118.23	123.91
Malaysia (68)	193.27	-8.9	166.64	158.51	170.06	204.40	-7.4	2.95	191.29	165.32	157.61	168.47	202.09	247.78	189.18	187.22
Mexico (16)	1254.68	+114.7	1081.81	1029.05	1104.02	4200.45	+122.6	1.25	1258.42	1087.57	1036.89	1108.30	4212.98	1258.42	534.45	491.16
Netherland (31)	137.53	+2.7	118.58	112.80	121.02	119.80	+16.2	4.50	136.95	118.36	112.84	120.62	119.30	145.73	125.70	133.78
New Zealand (14)	46.33	+6.7	39.95	38.00	40.77	43.45	+10.8	6.70	46.35	40.06	38.19	40.82	43.41	54.64	41.18	51.80
Norway (31)	191.18	-6.4	164.84	156.80	168.23	171.85	+5.4	1.64	192.24	166.14	158.40	169.31	172.99	228.24	178.58	240.86
Singapore (38)	187.59	+17.8	161.74	153.86	165.06	146.35	+14.7	2.43	184.96	159.85	152.40	162.89	144.13	208.25	151.63	149.71
South Africa (61)	247.04	+35.1	213.00	202.61	217.37	168.48	+23.7	2.88	247.60	213.99	204.01	218.06	168.86	258.85	173.00	162.14
Spain (53)	150.64	+7.4	129.89	123.55	132.55	122.00	+20.1	4.46	151.34	130.79	124.70	133.28	122.79	171.12	131.51	136.21
Sweden (25)	181.67	+13.9	156.64	149.00	159.86	165.87	+24.9	2.69	179.80	155.47	148.28	158.44	164.39	204.12	146.60	179.42
Switzerland (59)	92.50	+4.0	79.76	75.87	81.40	85.05	+21.0	2.27	92.15	79.64	75.94	81.17	84.67	100.67	82.17	91.97
United Kingdom (240)	176.17	+6.3	151.90	144.47	155.00	151.90	+19.3	4.88	176.75	152.76	145.62	155.65	152.75	187.44	156.27	165.53
USA (526)	154.97	+16.2	133.62	127.11	136.37	154.97	+16.2	3.13	154.60	133.61	127.39	136.16	154.60	161.02	125.95	120.84
Europe (827)	137.93	+2.5	118.93	113.13	121.38	120.75	+15.7	3.97	137.99	119.26	113.70	121.54	120.95	151.52	125.50	136.71
Nordic (106)	179.96	+7.3	155.16	147.59	158.35	155.75	+19.6	2.09	179.06	154.75	147.54	157.70	155.17	200.81	155.55	185.20
Pacific Basin (718)	141.42	+13.9	121.93	115.99	124.44	116.98	+9.3	1.07	141.29	122.11	116.42	124.44	117.37	145.92	117.86	123.59
Euro-Pacific (1545)	140.38	+9.1	121.04	115.12	123.51	119.30	+11.9	2.20	140.32	121.27	115.61	123.58	119.62	147.66	121.29	129.28
North America (640)	153.70	+15.5	132.52	126.07	135.27	151.98	+15.4	3.15	153.28	132.47	126.31	135.01	151.57	159.66	125.91	120.94
Europe Ex. UK (587)	115.33	-0.2	99.44	94.61	101.50	102.91	+13.1	3.27	115.12	99.49	94.87	101.41	102.77	129.80	103.58	118.89
Pacific Ex. Japan (244)	143.01	+23.5	123.31	117.31	125.85	125.93	+21.6	4.38	143.15	123.72	117.97	126.09	126.15	147.80	111.40	119.14
World Ex. US (1736)	142.01	+9.6	122.45	116.48	124.97	120.50	+12.1	2.25	141.93	122.66	116.96	125.01	120.78	148.16	122.32	129.62
World Ex. UK (2022)	142.38	+12.7	122.76	116.78	125.29	129.25	+13.1	2.30	142.13	122.83	117.11	125.19	129.26	145.77	120.06	121.67
World Ex. So. Af. (2201)	144.66	+11.7	124.73	118.66	127.30	131.08	+13.5	2.56	144.47	124.86	119.05	127.25	131.16	148.66	122.92	125.35
World Ex. Japan (1788)	148.89	+11.3	128.37	122.12	131.03	139.76	+16.4	3.48	148.69	128.50	122.53	130.97	139.65	152.85	126.69	127.68
The World Index (2262)	145.32	+12.0	125.30	119.20	127.88	131.40	+13.7	2.57	145.15	125.44	119.60	127.84	131.48	149.01	123.28	125.57

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

The following constituent changes took place during the week ending 11/10/91: Additions: Z-Landerbank (Ord. & Pfd.)(Austria). Deletions: Osterr. Landerbank (Ord & Pfd.)(Austria). Name changes: Inter-Pacific to Berjaya Group (Malaysia) and Berjaya Corp. to Berjaya Indl.(Malaysia).
Italian prices were unavailable October 11 owing to industrial action at the Milan Bourse.

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

NOTES– Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year, 'Compounded Annual Rate'. Int Crd: Frequency at which interest is credited to the account.

FINANCIAL TIMES STOCK INDICES

	Oct 11	Oct 10	Oct 9	Oct 8	Oct 7	Oct 4	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.70	86.58	86.76	87.12	87.32	87.26	87.94	82.17	127.4	49.18
Fixed Interest	96.47	96.55	96.63	97.02	97.01	97.07	97.17	90.59	105.4	50.53
Ordinary	1953.9	1956.4	1975.7	1991.6	1989.7	2018.7	2108.3	1806.3	2108.3	[illegible]
Gold Mines	166.6	167.1	167.3	167.2	166.5	161.2	222.8	127.0	734.7	43.5
FT Act All-Share	1234.68	1241.04	1247.10	1254.40	1253.92	1266.15	1284.07	987.46	1284.07	61.92
FT-SE 100	2555.0	2570.8	2584.1	2599.5	2596.2	2624.6	2679.6	2054.8	2679.6	986.9
FT-SE Eurotrack 100	1088.47	1086.32	1088.95	1093.53	1092.53	1098.21	1165.54	900.45	1165.54	900.45
FT-SE Eurotrack 200	1149.55	1150.96	1154.67	1160.51	1159.76	1170.14	1198.60	938.62	1198.60	938.62

‡ Partial

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Amount £m	Stock	Price £	Wk % chng	Last xd	Interest Due	City-line
1,809	Conversion 10pc 1996	100¼	-0.4	9.10	15May 15Nov	1240
1,200	Do. 10pc 1996 B	100⅜	-0.4	9.10	15May 15Nov	–
1,290	Treas 13¼pc 1997‡‡	113¼	-0.5	17.6	22Jul 22Jan	1302
3,300	Exch 10½pc 1997	102¼	-0.7	15.7	21Aug 21Feb	1253
3,600	Treas 8¾pc 1997‡‡	95⅞	-0.8	26.7	1Mar 1Sep	1341
830	Exch 15pc 1997	121¼xd	-0.7	20.9	27Apr 27Oct	1269
3,050	Exch. 9¾pc 1998	99⅝	-0.8	12.6	19Jul 19Jan	1273
1,000	Treas 6¾pc 1995-98‡‡	87¾xd	-0.9	25.9	1Nov 1May	1331
935	Treas. 15½pc '98‡‡	127¼	-0.7	27.8	30Mar 30Sep	1308
3,658	Exch. 12pc 1998	110⅞	-0.6	15.4	20May 20Nov	1259
1,450	Treas 9½pc 1999‡‡	99⅛	-0.6	10.6	15Jul 15Jan	1347
2,900	Exch. 12¼pc 1999	112⅞	-0.6	20.8	26Sep 26Mar	1264
1,252	Treas. 10½pc 1999	103⅞	-0.6	12.4	19Nov 19May	1288
1,548	Conversion 10¼pc 1999	102⅞	-0.6	15.4	22May 22Nov	1242
2,759	Conversion 9pc 2000‡‡	96⅞	-0.5	29.7	3Sep 3Mar	1244
3,171	Treas. 13pc 2000	117⅞	-0.6	7.6	14Jan 14Jul	1299
3,906	Treas 10pc 2001	101⅞	-0.8	22.7	26Aug 26Feb	1280
970	Treas. 14pc '98-01	118⅞	-0.4	15.4	22Nov 22May	1306
3,075	Treas 9¾pc 2002	100¼	-0.8	22.7	27Feb 27Aug	1349

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Wk % chng	Last xd	Interest Due	City-line
1,703	Treas 10pc 2003	102¼	-0.7	2.8	8Mar 8Sep	1281
1,620	Treas. 11½pc 2001-04	109⅞	-0.7	13.8	19Sep 19Mar	1290
443	Funding 3½pc '99-04	61⅞	-0.8	7.6	14Jan 14Jul	1274
1,512	Conversion 9½pc 2004	98⅜xd	-0.8	18.9	25Apr 25Oct	1246
1,500	Conversion 9½pc 2004 A	23⅞	-3.0		25Apr 25Oct	–

Index-Linked

Amount £m	Stock	(b)	Price £	Wk % chng	Last xd	Interest Due	City-line
500	Treas. 2pc '94	(102.9)	122¼xd	0.1	10.10	16Nov 16May	5070
1,000	Do. 2pc '96	(67.9)	176⅛	0.1	12.8	16Mar 16Sep	1313
1,000	Do 2½pc '01	(78.3)	144⅞	0.3	19.8	24Mar 24Sep	1316
800	Do. 2½pc '03	(78.8)	148⅛	0.2	15.4	20Nov 20May	1317
1,200	Do. 2pc '06	(69.5)	142⅝	0.3	12.6	19Jan 19Jul	1314
950	Do. 2½pc '09	(78.8)	138⅞	0.3	15.4	20Nov 20May	1318
1,450	Do. 2½pc '11	(74.6)	134⅞	0.2	17.7	23Feb 23Aug	1319
1,300	Do. 2½pc '13	(89.2)	110⅞	0.3	10.7	16Feb 16Aug	1320
1,700	Do. 2½pc '16	(81.6)	117⅞	0.2	19.6	26Jan 26Jul	1321
1,400	Do. 2½pc '20	(83.0)	113⅞	0.2	9.9	16Oct 16Apr	1322
900	Do. 2½pc '24‡‡	(97.7)	93⅞	0.3	10.6	17Jan 17Jul	1323

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for February 1991: 130.9 and for September 1991: 134.6.

INT. BANK AND O'SEAS

Amount £m	Stock	Price £	Wk % chng	Last xd	Interest Due	City-line
50	African Dv Bk 11¼Ln 2010	105⅜	-0.8	1.12	4Jan 4Jul	–
100	Asian Dev Bk 10¼pcLn2009	100⅜	-0.9	28.3	24Mar 24Sep	–
75	Int-Am Dev Bk 12½pc 2003	113⅞	-0.6	7.12	8Jan 8Jul	–
175	Do. 9⅜pcLn 2015	95⅞	-1.0	13.10	15May 15Nov	–
50	[illegible]	123⅞	-0.6	28.1	1Mar 1Sep	–

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Amount £m	Stock	Price £	Wk % chng	Last xd	Interest Due	City-line
60	[illegible] 3⅞pc Ln 2021	105⅞	0.2	31.12	30Jan 31Jul	3465
50	Do. 4.25pcIL '24	107⅞		19.2	23Feb 23Aug	–

Public Board and Ind.

Amount £m	Stock	Price £	Wk % chng	Last xd	Interest Due	City-line
25	Met. Wtr. 3pc 'B'	53		1.8	1Mar 1Sep	[illegible]

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Week % change	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass.	50		7.00	1.11	1May 1Nov	2763
4	Do. 6pc 28 Stb. Ass.	50		6.00	1.2	1Feb 1Aug	2762
–	Do 4pc Mixed Ass.	50		4.00	3.4	1Apr 1Oct	2761
1	Hung. '24 Ass.	55		3.57	3.5	1May	2935
40	[illegible] 15pc 2011	131½	-0.7	11.82	27.10	31May 30Nov	–

Continued on next page

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AMERICANS

Market Cap. £m	Stock	Price £	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
13 276.3	Abbott Laboratories	31¼xd	1.3	1.9	9 10	FeMyAuNv	1503
126.8	Allegheny & W 1c	244p	−5.1	7.3	–	–	–
904.1	Amdahl 5c	816pxd	3.9	0.7	31.1	MrMrJeAu	–
3 468.1	Amer. Cyanamid $5	36⅞	0.9	2.4	27.2	MrJeSeDe	–
5 609.8	Amer. Express 60c	11¾xd	−9.7	5.0	1 10	FeMyAuNv	1594
27 949.3	American T. & T $1	21⅞xd	0.9	3.6	27.3	FeMyAuNv	1597
15 597.9	Ameritech $1	35¾	3.3	5.6	28.3	FeMyAuNv	–
5 014.4	BankAmerica $1.2	23¼xd	1.4	3.1	16 8	FeMySeDe	1744
2 994.9	Bankers N.Y. $1	35⅜xd	3.3	8.1	27 9	ApJyOcJa	1745
19 125.7	Bell Atlantic $1	25¾xd	0.5	5.8	4.7	FeMyAuNv	–
13 581.2	BellSouth Corp.	28	−0.4	5.8	5.4	FeMyAuNv	–
666.4	Bethlehem Steel $8	8⅛xd	−0.7	2.7	6.2	MrJeSeDe	1821
456.9	Bowater Inc.	1274p	3.2	5.6	6 6	OcJaApJy	1884
3 880.0	CPC Intnl 25c	50⅜xd	−0.6	2.3	25.9	JaApJyOc	2263
157.7	California Engy	866p	1.2	–	–	–	–
5 427.9	Campbell Soup 15c	43¼xd	0.7	1.6	4.1	OcJaApJy	2050
1 430.9	Chase Manhattan $12½	10⅝xd	3.3	6.6	29.7	FeMyAuNv	2109
1 458.5	Chrysler $6¼	6½xd	13.0	5.5	11.9	ApJyOcDe	2135
2 619.3	Citicorp $1	7⅝xd	−3.9	7.7	23.10	MrJeSeDe	2141
3 390.1	Colgate-Palmolive $1	25xd	2.0	2.5	22.7	FeMyAuNv	2184
625.5	Cont'l Bank Corp $4	619p	3.3	5.7	31.5	DeMrJeSe	–
655.0	Dana Corp. $1	15⅜xd	−6.3	5.9	27.8	MrJeSeDe	2306
317.6	Data General	1151p	5.4	–	–	–	–
827.1	Dial Crop. $1.5	28⅜xd	−0.3	4.0	22 5	JaApJyOc	2778
4 821.2	Dun & Bradstreet $1	27	....	4.7	13 2	MrJeSeDe	–
1 172.3	Eaton Corpn. 50c	34½	1.1	–	7.2	–	2410
371.8	Echlin Inc.	6⅞xd	−5.4	6.2	1 7	JaApJyOc	3046
3 122.1	FPL Group 1c	19⅛xd	0.3	7.4	27 8	MrJeSeDe	–
1 973.1	Fluor Corp 62½pc.	24½xd	−0.9	0.8	19.9	JaApJyOc	2609
8 314.1	Ford Motor $1	17⅞	2.4	3.4	30.7	MrJeSeDe	2615
34 098.4	Gen. Elect. 63c	39¼xd	−0.5	3.1	23 9	JaApJyOc	2675
–	General Host Corp $1	466p	−0.9	4.3	3.12	–	–
4 919.8	Gillette $1	22½xd	−1.1	1.6	24 5	MrJeSeDe	2695
969.7	Hasbro Inc 50c	17	−0.7	0.8	1 8	JaApJyOc	–
2 222.3	Honeywell $1½	31⅜xd	3.9	2.8	27 8	MyJeSeDe	2919
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ENGINEERING

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

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LEISURE – Contd

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY – Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS – Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie as a guide only.

FINANCE, LAND, ETC

[illegible]

FINANCE, LAND, ETC – Contd

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

MINES – Contd

Australians

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ♠ Not comparable
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ¶ Cover does not allow for shares which may also rank for dividend at a future date.
- || No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1	β	638	-0.3		
Finlay Pkg. 5p	β	28	7.7	Helton Hldgs. γ	37 -2.6
Holt (Jos) 25p	β	1985xd	.....		

IRISH

Cap. 8½% Ln. 2010	£94½	0.5	United Drug	165 -5.7
9pc Cap Ln. 1996	£98¼	0.1	IRG	125 .....
Fin. 13% 97/02	£113¾	-0.4		
Arnotts	190	-5.0		

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	50
Amstrad	6
Astec (BSR)	5
BAT	53
BOC Grp.	48
BTR	33
Barclays	34
Blue Circle	28
Boots	33
Bowaters	55
Brit Aerospace	35
British Steel	10
Brit. Telecom	35
Cadburys	35
Charter Cons.	42
Comm Union	40
Courtaulds	38
Eurotunnel	50
FKI	5
FNFC	10
Forte	21
Gen Accident	43
GEC	16
Glaxo	110
Grand Met	67
Guardian	14
GKN	28
Hanson	17
Hawker Sidd.	56
ICI	95
Ladbroke	21
Legal & Gen.	33
Lex Service	16
Lloyds Bank	30
Lucas Inds.	12
Marks & Spencer	21
Midland Bk.	20
Nat West Bk.	26
P & O Dfd.	41
Racal Elect.	6
RHM	23
Rank Org Ord.	55
Ratners	12
Reed Intnl	35
Sears	8½
SmKl. Beecham A	53
TI	39
TSB	11
Tesco	21
Thorn EMI	65
T&N	34
Unilever	60
Vickers	16
Wellcome	60

Property

Brit Land	27
Control Secs.	2
Land Securities	41
MEPC	42
Mountleigh	4

Oils

Aviva Petlm.	3
Brit Petroleum	26
Burmah Castrol	47
Conroy Petlm.	8
Gaelic Res.	1
Premier	4
Shell	40
Tuskar Res.	1
Ultramar	20

Mines

Lonrho	20
RTZ	46

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,150 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: Robeco N.V. (Section: Finance Land)
Rolinco N.V. (Finance Land)
Stanelco (Engineering)

Deletions: Davy Corporation (Engineering)
LEICA (Electricals)
SPS Consultancy (Papers)

4:00 pm prices October 11

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16⅞	9¼	AAR Corp	0.48	0.04	17	341	12½	12⅛	12½	
18⅛	14½	A L Labs A	0.16	0.01	20	108	18⅛	18	18⅛	+⅛
55⅛	40⅞	AMP Inc	1.44	0.03	18	5868	49⅛	47⅞	48	-1⅛
68⅝	44¼	AMR				113265	58¼	56¾	58¼	+⅞
2⅝	1	ARX			1	89	1⅝	1½	1½	
56	41½	ASA	3.50	0.07	13	834	47⅞	46⅞	47¾	+¾
55⅛	39¼	Abbott Lab x	1.00	0.02	22	2504	53⅝	53⅛	53½	
14⅝	9⅞	Abitibi Pr x	0.50	0.04	23	5	12⅞	12⅞	12⅞	
11⅝	10⅜	ACM Gvt In x	1.26	0.11		455	11½	11⅜	11½	+⅛
9⅞	8¼	ACM GvOpp x	1.01	0.10		96	u9¾	9⅝	9⅝	
9½	8¼	ACM Gvt Sp x	1.01	0.11		266	u9½	9⅛	9½	+⅛
11	9⅞	ACM Gvt Sc	1.26	0.12		520	10⅞	10¾	10⅞	+⅛
9	7⅞	ACM Man x	1.01	0.11		930	u9	8⅞	9	+⅛
12⅞	11½	ACM Mmsgs x	1.35	0.10		256	12⅞	12⅝	12¾	
7½	4¾	Acme Cleve x	0.40	0.06	16	210	6¼	6	6¼	
6	3⅞	Acme Elect			2	46	4⅜	4⅛	4¼	+⅛
40	22¼	Acuson			23	432	33⅞	33½	33⅝	+1
19⅛	14⅛	Adams Expr	0.73	0.04	0	45	u19⅛	19	19⅛	
20⅛	17½	Adobe12P1	2.40	0.12		6	19⅝	19⅝	19⅝	
9¼	6⅝	Adobe Res			46	846	7¼	7	7	-¼
38⅛	18	Ad Micro				265	32¾	32	32¾	+¾
14¼	4⅝	Ad Micro P	3.00	0.28	17	1528	10½	10⅛	10½	+½
5½	2⅛	Advest Grp	0.16	0.04	5	192	3⅝	3⅝	3⅝	
49⅛	31⅞	Aetna Lf x	2.76	0.08	7	1608	34⅝	33¾	34⅝	+⅝
10⅝	6⅝	Ahl A	0.24	0.03	42	679	7¾	7⅝	7⅝	-⅛
20⅞	12	Ahmanson	0.88	0.05	10	1048	16¾	16⅜	16½	-⅛
15¼	2⅞	Aileen Inc			16	736	u15⅞	15¼	15⅞	+⅝
74⅛	51⅞	Air Pr Chm x	1.56	0.02	14	1136	68⅝	67½	68⅛	+⅝
30	16⅝	Airborne Frt	0.30	0.01	16	163	25⅝	25¼	25⅝	
13⅞	12½	Airgas Inc			122	27	18⅝	18½	18½	
15¼	10	Airlease	1.68	0.13	9	10	12½	12¼	12½	
96½	88¼	AlaPw8 16	8.16	0.08		5	u98	97½	98	+2
25½	21⅛	AlaPw PfA	2.00	0.08		11	u25⅛	25⅛	25⅛	
106½	100	AlaPw9 44	9.44	0.09		z100	u107	107	106½	+1½
108	102⅞	Alab Pw 11				2	104	104	104	

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
30	22⅞	BRE Prop	2.40	0.08	16	13	28	[illegible]		
39⅛	24⅝	Briggs & S	1.60	0.04	14	111	37½	37[illegible]		
48½	36⅝	Brinkerint			34	113	47¾	47[illegible]		
87⅞	61¼	Bristol M x	2.40	0.03	22	5421	83⅞	81[illegible]		
33¾	24½	Brit Airwy	1.78	0.05	30	241159	33¾	32[illegible]		
51⅛	39	Brit Gas	2.80	0.06	11	1151	44⅝	44[illegible]		
77½	63⅞	BP ADR	4.36	0.06	11	1384	71⅞	[illegible]		
32⅛	26⅝	BP Prudhoe x	3.57	0.11	9	580	32	31[illegible]		
8⅝	3½	BP Wts93				343	3⅞	3[illegible]		
27⅝	19¼	Brit Steel	1.70	0.08	12	362	20⅞	20[illegible]		
74	51¼	Brit Tel	3.24	0.05	13	198	70	69[illegible]		
16⅛	4⅝	Broad Inc	0.20	0.02	10	9038	13⅛	12[illegible]		
32⅛	27½	BrklnPld	2.47	0.08		4	31⅛	31[illegible]		
30⅝	27	Brooklyn U x	1.90	0.06	13	64	29½	29[illegible]		
84½	69	BrwnForman B	2.24	0.03	14	26	73¾	72[illegible]		
29⅝	21⅝	Brown Grp	1.60	0.06	16	159	25¼	25[illegible]		
12⅝	7⅞	Brown&Shrp	0.32	0.04	1	91	8	d7[illegible]		
30⅛	17⅝	Browning F	0.68	0.04	12	3453	17⅞	d17[illegible]		
4⅛	2	BRT			0	8	2⅞	2[illegible]		
16⅜	8⅝	Brunswick	0.44	0.04	54	1831	12	11[illegible]		
30	13⅝	Brush Well	0.72	0.05	18	385	14	d13[illegible]		
28	23⅝	Buckeye Pt	2.80	0.08	10	7	u28	27[illegible]		
16⅛	13	Butler Ml x	1.64	0.10	0	2	15½	15[illegible]		
13¾	10¼	Burger K I	1.62	0.13	13	154	12⅝	[illegible]		
18⅞	8⅝	Burl Coat			11	71	18⅝	18[illegible]		
37⅞	26¼	Burl North	1.20	0.03	8	1258	36½	36[illegible]		
43¾	32⅞	Burln Resc x	0.70	0.02	30	1389	41⅞	41[illegible]		
16	11¼	Burnham Pc	1.36	0.09	45	2	14⅞	14[illegible]		

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
51½	43¾	Xerox4.125				15	50½	50¼	50¼	-⅛
23⅝	14⅛	Xtra 1.94				10	u23⅞	23½	23½	-⅛
27⅞	14¼	Xtra Corp	0.72	0.03	57	19	25½	25⅛	25¼	-⅛
26	21⅞	Yankee Egy	1.60	0.06	12	31	25⅝	25⅛	25⅝	+⅛
1½	⅝	Zapata			2	130	⅞	⅝	⅞	+⅛
9⅞	5¾	ZenithElec			1	167	5⅞	5½	5⅞	+⅛
18½	12	Zenith Nat x	1.00	0.06	94	30	16	15⅞	16	
6⅞	4½	Zemex Inc	0.84	0.13		2	u6⅞	6⅞	6⅞	
15¼	10⅞	Zero Corp	0.40	0.03	15	57	13⅛	12⅞	13	
41⅛	29½	Zurn Ind	0.88	0.02	14	125	34⅝	34¼	34⅝	+⅛
13½	10¼	Zweig Fund x	1.16	0.09		387	12⅝	12½	12⅝	+⅛
10⅝	8½	Zweig Totl x	0.96	0.09		306	10⅛	10⅛	10⅛	

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices October 11

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Pegasus G		7	167	11¾	11	11¾	+⅛
Perini		6	11	9⅝	9¼	9⅝	+⅛
Pet HEAP	0.31	12	6	10⅝	10¼	10⅝	+⅛
Phil LD	0.17	9	2165	u22½	21	22½	+2⅛

NASDAQ NATIONAL MARKET

4:00 pm prices October 11

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		26	18239	24¾	22⅛	22¾	-1
XL Data		34	78	11¾	10¾	11¾	+⅛
Xoma Corp		8	4553	15	14	15	+⅛
Yellow Fr	0.94	18	729	30⅝	29½	30⅛	+⅛
York Rsch		59	1471	7⅛	6⅞	7⅛	+⅛
Zentec x	1.44	9	4	45⅝	44⅛	44⅛	-⅝

MONDAY INTERVIEW

Pugnacious patrician in charge

Anthony Tennant, chairman of Guinness, speaks to **Philip Rawstorne**

In the four and a half years of his leadership as chief executive and chairman of Guinness, Mr Anthony Tennant has turned a demoralised and scandal-torn company into one of the world's most profitable drinks business.

The company has outperformed the rest of the FT-SE 100 companies since 1987. Its share price has risen from £3 to more than £10 over the same period. Pre-tax profits have soared from £408m to £847m last year; earnings per share and dividends have doubled.

Guinness probably makes more profit from exports than any other UK business; and half-year results confirm the upward trend.

In revitalising the fortunes of Guinness, Mr Tennant has led the entire Scotch whisky industry, which it dominates, into renewed prosperity. By restoring the company's battered reputation, he has been able to represent the industry's interests – most recently against EC discriminatory taxation – in Whitehall and Westminster.

"There is no doubt he has turned the industry around," says Mr John Wakely, an analyst at Shearson Lehman. "By pushing its products upmarket, he has set it on a new and highly profitable course."

A lofty, patrician figure, Mr Tennant was chosen in early 1987 to pull Guinness out of the turmoil that followed the takeover of Distillers and the fall of Ernest Saunders.

While Lord Macfarlane, now joint deputy chairman, shielded him from the effects of the legal fall-out, Mr Tennant got to grips with developing the business.

He did not have the benefit of a personal briefing from his predecessor or even access to his papers, most of which had been impounded. "Morale was not good," he says, with a degree of understatement, but there were positive elements in the legacy he inherited.

There were a lot of good senior managers in the company – and there was an array of strong brands from Guinness stout to Johnnie Walker whisky and Gordon's gin on which he could unleash the marketing flair and skills developed over 30 years.

A member of a wealthy Scottish business clan, Mr Tennant could have entered a number of family concerns after university, but he wanted "to make my own way in the world". He joined Mather & Crowther, forerunner of Ogilvy & Mather, the advertising agency which now numbers Guinness among its clients.

He worked with David Ogilvy, advertising's guru, in New York, and sold the line "Schh . . . you know who" to Schweppes, and "Good food costs less at Sainsbury's" to J Sainsbury.

Mr Tennant left to set up his own marketing consultancy and was planning a retailing venture when he was offered the job of marketing director of Truman, the brewer. Four years and two company mergers later, he found himself in Grand Metropolitan with the task of developing its IDV spirits company.

"IDV was not producing anything like an adequate return on its assets but it presented great opportunities because of the latent strength of its brands," he says.

"The industry then was production orientated. It knew which products were good – and thought it was a matter of teaching consumers to appreciate them instead of trying to find out what they wanted."

Mr Tennant reversed that attitude and launched a series of new products in response to consumer tastes: Bailey's Irish Cream – "like a Mars bar in a bottle" – now the world's best-selling liqueur, and Malibu among them. He made Le Piat d'Or the top branded French wine.

Acquisitions, such as Paddington and Carillon in the US, were focused on developing brand portfolios and extending and controlling their distribution. By the time he left GrandMet in 1987, after losing to Sir Allen Sheppard in the succession to chief executive, IDV's profit had been lifted from £10m to £250m a year.

The methods he had used to achieve that growth were the blueprint for Guinness, where his first decision was to concentrate on the group's core brewing and spirits operations.

To do so, he sold 24 businesses in little more than two years for £610m.

"There was a thread of thinking running through the company that good managers could manage anything and everything. I think you do better if you focus your management talents on as narrow a range as possible.

"Some seemed to assume that there was little profit growth left in brewing and spirits. I reckoned there was plenty of scope."

The strategy he pursued was based on a conviction that as consumers worldwide became more affluent they would choose to drink better-quality, higher-priced products that reflected their new lifestyle; and that it would be the companies with premium brands that would profit.

'It is better to focus management talents narrowly'

The old Distillers empire – run as separate, often competing, baronies – had been focused on volume sales rather than brand values.

Mr Tennant brought in Anthony Greener, who had built Dunhill into an international luxury goods business, to restructure the operations. Distillers was reorganised on regional market lines. Distribution was rationalised, cutting 1,300 third-party agents worldwide to fewer than 500. Greater direct control increased margins and improved marketing. Key brands – such as Johnnie Walker, Dimple, Dewar's and Black & White – were repackaged, repositioned, repriced, and backed by intensive advertising designed to restore their premium image.

The pace of change was furious. "We had a lot of catching up to do," Mr Tennant says. Within three weeks of arriving at Guinness, he was talking to LVMH, the French cognac and champagne group, about a marketing and distribution alliance.

"We had this great strength in a narrow field: Scotch whisky. We did not have breadth. We had to find partners with strong brands in other drinks sectors, so we could create portfolios that would give us more clout in the market place."

Such joint ventures have become a hallmark of Guinness's international development. Nearly 30 ventures have been formed with other European drinks groups such as Bacardi, Underberg, and Codorniu and in south-east Asia with Jardine Matheson, Inchcape, and Jinro, a leading South Korean spirits distributor.

Similar moves in brewing have linked Guinness stout with international lagers such as Heineken and Carlsberg.

"The partnerships bring substantial mutual benefits without the premium prices and problems that hostile takeovers would involve," Mr Tennant says. When Guinness and LVMH cemented their partnership with cross-shareholdings, however, the move raised some criticisms in the City. There were doubts about the return Guinness would get on its investment in LVMH and the risk to its independence of such an aggressive partner.

Mr Tennant insists the deal was necessary to protect their mutual interests. He dismisses the idea of a takeover: "We already have all the synergies without paying a premium for them," he says. "The only people who would benefit from a takeover would be the outgoing shareholders."

Over the past nine months Guinness has been strengthening its position in the international drinks market through agreed acquisitions, spending £840m on leading brands of Spanish beer, Venezuelan and Australian rum, US bourbon, and German brandy.

Some sceptics suggest that, having enjoyed the benefits of sorting out distillers, Mr Tennant will find it increasingly difficult to maintain profits growth in a static or declining market. Can he continue to persuade consumers to pay higher prices for his premium brands? "As people have more to spend, they do not take more holidays, they take better holidays, they do not buy more clothes, they buy better clothes, not more food but better food. I do not think drink is an exception."

Recession may slow the process from time to time. The industry will have to defend itself against anti-alcohol lobbies; and resist the politicians who use it as an easy source of tax revenue.

Though the growing economic importance of the industry has been quickly recognised by the City, it has only percolated slowly through to Westminster and Whitehall. Exports of Scotch whisky earned £1.7bn last year – but the government failed to realise the trade implications of EC tax reform proposals that would have increased the discrimination against whisky and threatened some of the most valuable export markets in southern Europe.

A willingness to help the industry – especially in overcoming export barriers – is "not always readily apparent," he says.

The emphasis during the Thatcher years had been on the individual entrepreneur and small companies. "That's fine – but it is really only big business, competing in world trade, that can secure improvement in our standard of living. It is not going to reach its full potential unless the government is prepared to fight its corner when necessary."

PERSONAL FILE

- **1930** Born in London. Educated at Eton and Trinity College, Cambridge
- **1960** Director, Mather & Crowther
- **1972-76** Sales and marketing director, then deputy chief executive at Watney Mann & Truman
- **1977-87** Director of Grand Metropolitan, then group managing director, deputy chief executive
- **1987-** Chief executive, then chairman of Guinness

Twilight for the US dollar

MICHAEL PROWSE on America

Within a decade the US Federal Reserve will be seeking to offset the inflationary impulses of Congress and the White House by pegging the dollar to the European Currency Unit (Ecu) – or whatever the European Community's common currency is then called. The US, in contemporary jargon, will have abandoned an independent monetary policy and sought the security of an external "nominal anchor".

By 2000, an expanded EC, easily the world's largest trading bloc, will be the hub of a global system of fixed exchange rates providing monetary stability akin to that enjoyed during the heyday of the post-war Bretton Woods regime. The difference is that the US will have ceded leadership to Europe in monetary affairs. Japan, anxious to maintain access to EC markets, will accept the new rules and peg the yen against the Ecu.

These outlandish speculations were prompted by a conference on the Bretton Woods exchange rate system organised by the US National Bureau of Economic Research and staged in New Hampshire at the very hotel where John Maynard Keynes, for Britain, and Harry Dexter White, for the US, thrashed out the terms of a post-war monetary order. With their ghosts hovering inside and the incomparable reds and browns of the New England autumn outside, expansive thoughts were hard to suppress. Even the hotel's faded grandeur seemed a metaphor for the US's reduced economic standing.

None of the mostly American economists at the conference hinted at the monetary developments outlined above. Indeed, the majority view was that the Bretton Woods system of fixed but adjustable exchange rates was doomed to fail, mainly because of increased capital mobility. Speculative pressures in financial markets made periodic exchange rate adjustments problematic and hence impaired countries' ability to cope with macroeconomic imbalances. In the absence of new exchange controls, speakers implied that floating exchange rates were now the only practicable option.

There was, however, a dissenting voice – that of Mr Ronald McKinnon, of Stanford university. He argued that the post-war exchange rate system failed not because of inherent flaws but because countries did not understand the rules of the game they were actually playing. Bretton Woods was ostensibly a system of many equal currencies all pegged to gold. Explicit provision for parity adjustments was intended to give members domestic autonomy, thus allowing them to set different goals for key variables such as unemployment and inflation.

But the system rapidly evolved into what Mr McKinnon calls a "fixed-rate dollar standard". Currencies were linked rigidly to the dollar; parity changes were extremely infrequent and shunned by all governments. With rates fixed rather than adjustable over the long term, all countries effectively ceded monetary authority to the US, which set the world rate of inflation. For nearly two decades the US played its role as nominal anchor perfectly, running a tight monetary policy and keeping inflation low. But in the late 1960s it began to loosen policies in order to finance the Vietnam war and social policies without raising taxes. Other countries – notably Germany – were unwilling to accept higher inflation. The system thus collapsed.

The regime of adjustable rates planned in 1944 was flawed because it could not cope with capital mobility. But the fixed-rate dollar standard that actually emerged was logically sound. But for the gold link, it could have lasted indefinitely, provided the US had offered monetary leadership acceptable to other members. But the US's failure to understand the rules of the game led to the collapse of the most successful monetary regime in history and caused a generation of economists to lose faith in fixed exchange rates.

European countries, however, continued to seek stability. Out of the chaos of the early 1970s, they rapidly forged first the currency "snake" of the 1970s and then the European Monetary System (EMS). Like Bretton Woods, the EMS started as a system of adjustable parities but steadily evolved into a fixed D-Mark standard. Unlike the dollar standard, it shows no sign of collapsing because Germany – the hub country – remains committed to low inflation. And its success is causing renewed worldwide confidence in fixed exchange rates. Even the International Monetary Fund, which once preached devaluation as a necessary part of economic adjustment, is now reviewing the merits of nominal anchors.

Outside the US, doctrinal objections to fixed rates are eroding. The benefits of devaluations are often seen as likely to be squandered in higher inflation – which few economists now believe can buy permanently higher growth. Meanwhile, domestic action to equalise savings and investment is widely regarded as a more effective cure for persistent external imbalances.

The world thus seems likely to move steadily towards greater rigidity of exchange rates. But the leadership will come from the EC, not the US where policymakers still believe in trade-offs between inflation and unemployment and regard exchange rate flexibility as a necessary component of economic sovereignty. I suspect that US attitudes will gradually change, but not fast enough for America to regain the monetary initiative. By 2000, the dollar may be pegged to the Ecu for much the same reasons that the franc was once pegged to the D-Mark.

Child law made comprehensive

JUSTINIAN

The Children Act 1989, which comes into force today, is the product of recent painful lessons drawn from cases of child abuse and neglect, and of a decade of government review and public discussion about society's attitude to the care and upbringing of children. The Act brings together the public and private segments of child law into a comprehensive, comprehensible and internally-consistent piece of legislation.

It enacts the best practices in child care, but it is not the radical reform which some people would like to have seen. It does not, for example, establish a charter of children's rights and it stops short of establishing a Family Court. It also falls short of being a code of child law because existing provisions of the criminal law which apply to children and young persons remain operative.

On the public law side, parliament has retained the court system and rejected the example in Scotland, where decisions as to what is to happen to a child in trouble and in need of compulsory care are taken at a Children's Hearing. A Children's Hearing is conducted by a Children's Panel – a body of people who are considered to possess the qualities to make sensible decisions about children. The Children's Hearing approaches the issues informally, and in private. Only if there is a dispute about the grounds for intervening in the child's life is the matter referred to the courts.

The English solution is for the courts to ask why a local authority needs to intervene. Before a care order or a supervision order can be made, the court will have to be satisfied that the child has been harmed, or is likely to be harmed, by its being beyond parental control – or by an absence of a reasonable standard of parental care. The court also has to be satisfied that the proposed order will be the most effective means of safeguarding and promoting the child's welfare. There is a presumption that unless it can be shown that the order will be positively beneficial to the child, the court must desist from making an order interfering with family life.

Another aspect of the new law's sensitivity towards parental rights – now acknowledged to involve parental responsibility and duties – are the provisions for preventing action against abusive parents. The least satisfactory aspect of the pre-1989 law was the lack of proper respect for parental rights in the removal of a child to a place of safety, without any clear legal framework for the social worker investigating allegations of child abuse.

The unrestricted ability of social workers to obtain Place of Safety Orders from magistrates often showed scant respect for parental rights. In the Cleveland inquiry, 276 of these orders were applied for and obtained over a six-month period without any parent having been present when the order was made. None of the orders was refused by the magistrates.

The gap in the law was the limited power of social workers to back up their duty to investigate cases of suspected child abuse. Too often the social worker was faced with the dilemma of having insufficient reliable information about the condition of a child suspected of being abused to remove the child from the family home, and yet needing to be reassured that the child was safe from a risk of harm. The new law provides an order which will require a parent to take the child to a clinic for medical examination, but will not have the effect of the stringent application of an Emergency Protection Order. An emergency order will, in future, be used only when the removal of a child is urgent.

Some social workers believe these provisions indicate the Act is more of a parents charter than a means to protect children. Much will depend in practice on the attitudes of the courts when social workers exercise their statutory powers.

The Act is explicit. Unlike the administration of child welfare legislation of the past, the courts will no longer remain aloof, issuing orders for others to carry out. Rather, the courts will consult before orders are made, and be involved in their implementation. Under the new Act, the orders of the courts will be framed deliberately in the context of a range of welfare provisions.

The alliance of courts and social service departments will demand an appreciation by the newly structured judiciary working alongside and together with the agencies of child care, and vice-versa. Much training and instruction of magistrates has been going on to attune the courts to this new collaborative exercise.

The private family law provisions dovetail with the public law orders of care and supervision. The old law was unnecessarily complicated, with provisions scattered among a number of acts of parliament. The procedures for the two discrete branches of law, and the remedies available in a hierarchy of courts overlapped. Anomalies abounded. All that is swept away.

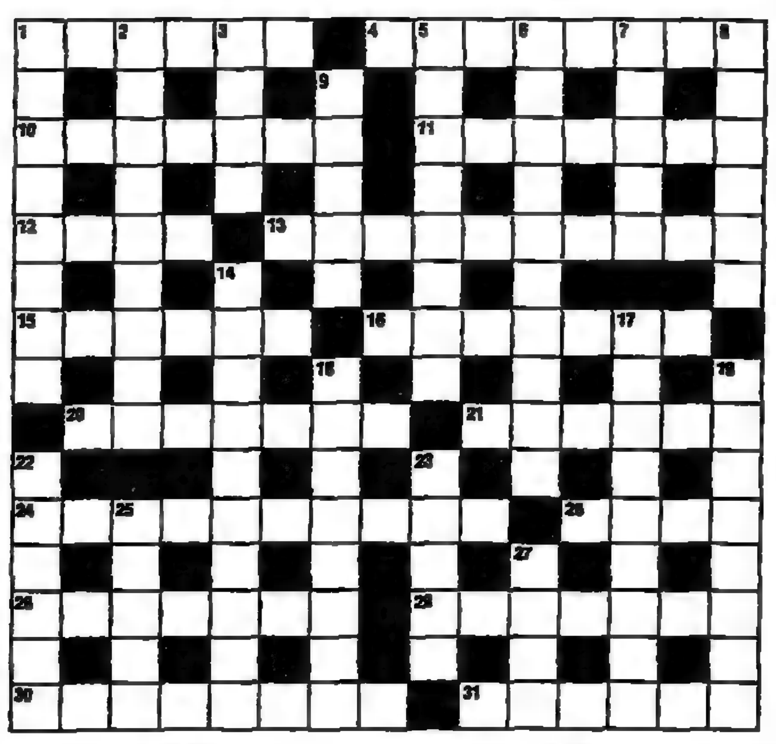
The Act abolishes the orders currently made in relation to the custody and access of families to their children. These were unhappy labels, redolent of the old idea of parental property in the child. The new concept is "contact". Four orders replace the old law. The main one requires a person with whom a child lives to allow the child to visit, stay with or have contact with another person named in the court's order. Contact, which may be any form of communication (telephone, letters and so on), is seen as being more flexible than "access", which involves a face-to-face encounter.

The Act is massive in its provisions. A lot has to be learnt by those administering it. For the social services, the changes are less dramatic for the simple reason that the legislation does little more than enact the best practices of the last 10 years. It is the other services, in particular the courts, which will have to learn new tricks.

JOTTER PAD

CROSSWORD

No.7,671 Set by PROTEUS



ACROSS

1 King surrounded by peace-makers in boards. (6)
4 Obviously a soft author (8)
10 Friendly footballers backing ridiculous story (7)
11 To do with the Nile but nothing to do with the ear (7)
12 Row in station (4)
13 Be fully sensible of rise in value (10)
15 Actor given cheese by Royal society (6)
16 Meadow over the river (7)
20 Flag of Quaker worker (7)
21 Plant known to shake (6)
24 Declare fool never stopped eating (10)
26 Experts at cards (4)
28 Unusual tears in solid part of fat (7)
29 Basket used by girl in public relations (7)
30 Member of audience with magazine (8)
31 Variation in small coin (6)

DOWN

1 Invective harangue about help before race (8)
2 Displeasing nature of attack (9)
3 In a position to return to island (4)
5 Eastern saint without vital organ (8)
6 Apportionment of site to a novice (10)
7 Bit-player getting a run (5)
8 Army discharge is just the thing (6)
9 A great deal made by man over health resort (5)
14 Rants about poetry in cross fashion (10)
17 Left-wing move into editorship? (9)
18 Charm one's way in (8)
19 Jam for instance can (8)
22 Strange tale about ship's hanging decoration (6)
23 Remains to look up notices (5)
25 Stages in flight (5)
27 Island getting short measure (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 26.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 11.10.91: Pool purchase price £/MWh	Final Prices for Trading on 15.09.91: Pool purchase price £/MWh	Pool selling price £/MWh
0030	15.84	15.98	15.98
0100	15.83	15.97	15.97
0130	15.83	15.97	15.97
0200	15.85	15.95	15.95
0230	15.85	15.94	15.94
0300	15.85	15.92	15.92
0330	15.83	15.98	15.98
0400	15.83	15.82	15.82
0430	15.82	14.21	14.21
0500	14.90	15.82	15.82
0530	15.82	15.86	15.86
0600	15.82	14.21	14.21
0630	15.83	15.86	15.86
0700	15.83	15.87	15.87
0730	15.85	15.93	15.93
0800	15.86	15.98	15.98
0830	16.43	15.98	15.98
0900	16.43	17.08	18.99
0930	16.43	17.08	18.98
1000	16.43	17.45	19.38
1030	16.43	17.61	19.55
1100	16.43	18.98	20.98
1130	16.43	20.84	22.87
1200	16.94	20.84	22.87
1230	16.43	20.84	22.87
1300	16.94	20.84	22.87
1330	16.94	18.98	20.98
1400	16.94	18.90	20.88
1430	16.43	18.05	20.01
1500	16.43	17.61	19.58
1530	15.85	15.97	15.97
1600	15.85	17.61	18.68
1630	15.88	15.97	15.97
1700	16.43	17.61	19.56
1730	16.94	18.05	20.01
1800	16.94	18.28	20.25
1830	17.26	18.28	20.25
1900	22.56	18.28	20.25
1930	22.68	18.76	20.74
2000	22.56	20.27	22.29
2030	18.69	20.27	22.29
2100	18.07	20.27	22.29
2130	18.59	20.04	22.08
2200	18.59	20.04	22.05
2230	17.26	19.45	21.45
2300	16.94	18.05	20.01
2330	16.83	17.61	19.56
2400	15.85	15.98	15.98

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 14.10.91: Pool purchase price £/MWh	Final Prices for Trading on 18.09.91: Pool purchase price £/MWh	Pool selling price £/MWh
0030	15.83	15.94	15.94
0100	15.82	15.91	15.91
0130	15.83	15.90	15.90
0200	15.85	15.90	15.90
0230	15.85	15.89	15.89
0300	15.85	15.89	15.89
0330	15.83	15.88	15.88
0400	15.83	15.88	15.88
0430	15.83	15.89	15.89
0500	15.85	15.88	15.88
0530	15.80	15.98	15.98
0600	15.80	15.98	15.98
0630	15.80	16.02	16.02
0700	16.08	17.28	17.28
0730	17.98	18.31	21.91
0800	19.61	23.80	27.54
0830	24.08	28.22	33.34
0900	24.71	38.39	48.97
0930	24.91	50.30	62.28
1000	24.89	58.94	70.58
1030	25.02	58.14	71.86
1100	25.08	57.48	71.12
1130	25.43	64.02	79.51
1200	25.30	67.45	83.75
1230	24.72	61.41	76.14
1300	24.10	47.87	58.82
1330	19.80	33.54	40.34
1400	19.51	24.31	24.31
1430	18.74	22.27	22.27
1500	18.75	25.47	28.58
1530	18.78	25.77	28.72
1600	20.35	28.19	30.32
1630	21.28	27.48	32.05
1700	22.93	28.01	32.72
1730	23.16	26.27	30.35
1800	23.27	24.13	27.48
1830	25.89	17.67	17.67
1900	27.36	17.40	17.40
1930	26.59	17.77	17.77
2000	24.12	23.74	28.00
2030	21.60	23.92	27.04
2100	21.43	23.58	26.51
2130	17.95	22.90	25.59
2200	17.95	19.28	21.77
2230	17.88	19.23	21.88
2300	17.23	18.69	21.02
2330	16.90	18.11	20.54
2400	15.85	16.11	16.11

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

BASE LENDING RATES

	%		%		%
Adam & Company	10.5	Credit Lyonnais	10.5	Midland Bank	10.5
Allied Trust Bank	10.5	Cyprus Popular Bk	10.5	Mount Banking	10.5
AIB Bank	10.5	Dunbar Bank PLC	10.5	NatWestminster	10.5
● Henry Ansbacher	10.5	Duncan Lawrie	10.5	Northern Bank Ltd	10.5
B & C Merchant Bank	10.5	Equatorial Bank plc	10.5	Nykredit Mortage Bank	11
Bank of Baroda	10.5	Exeter Bank Limited	11	Provincial Bank PLC	14
Banco Bilbao Vizcaya	10.5	Financial & Gen. Bank	11	Roxburghe Bank Ltd	11.5
Bank of Cyprus	10.5	First National Bank Plc	14	Royal Bk of Scotland	10.5
Bank of Ireland	10.5	● Robert Fleming & Co	10.5	● Smith & Williamson Secs	10.5
Bank of India	10.5	Robert Fraser & Ptrs	11	Standard Chartered	10.5
Bank of Scotland	10.5	Girobank	10.5	TSB	10.5
Banque Belge Ltd	10.5	● Guinness Mahon	10.5	Unibank plc	10.5
Barclays Bank	10.5	● Hambros Bank	10.5	● United Bk of Kuwait	10.5
Benchmark Bank	11	Hampshire Trust Plc	13.5	Unity Trust Bank Plc	10.5
Brit Bk of Mid East	10.5	Heritable & Gen Inv Bnk	10.5	Western Trust	10.5
● Brown Shipley	10.5	● Hill Samuel	10.5	Westpac Bank Corp	10.5
CL Bank Nederland	10.5	C. Hoare & Co	10.5	Whiteaway Laidlaw	10.5
Citibank NA	10.5	Hongkong & Shanghai	10.5	Yorkshire Bank	10.5
City Merchants Bank	10.5	● Leopold Joseph & Sons	10.5		
Clydesdale Bank	10.5	Lloyds Bank	10.5		
Co-operative Bank	10.5	Meghraj Bank Ltd	10.5		
Coutts & Co	10.5	McDonnell Douglas Bnk	10.5		

● Members of British Merchant Banking & Securities Houses Association.

The Environment: World economic activity poses four main risks. . . **Page 7**

WORLD ECONOMY

Immigration: One of the most difficult economic and social challenges. . . . .**Page 8**

The industrialised world faces a difficult period of rising unemployment and unspectacular growth in which material generosity will be in short supply. But 1bn people in the developing world live in poverty and seek support from the wealthy nations. **Peter Norman** explains

Triumph and tribulation

THE world economy presents a contrasting picture of triumph and tribulation.

The triumph belongs to an idea. Following the collapse of communism in eastern Europe and the Soviet Union, there is hardly a country in the world that does not subscribe to market-oriented economics.

The tribulation arises in trying to translate this victory into a stable, more prosperous environment for the globe's 5.4bn inhabitants.

Even the planet's most prosperous nations have passed through a difficult 12 months of slower growth and, in some cases, recession. They now face an uncertain economic future.

The newly liberalised countries of eastern Europe and the Soviet Union are either in the middle of, or embarking upon, the unprecedented challenge of moving from a command to a market economy.

According to the World Bank's latest annual report more than 1bn people – about one third of the population of the developing world – live in poverty. Ignorance, corruption, debt and disease – including Aids – are just some of the factors preventing this tragically large segment of humanity fulfilling the promise that lies within every individual.

But no longer can such waste be ignored by the rich industrial world. Video technology and the jumbo jet have brought western-style expectations and the means of fulfilling them to the humblest hearth. Growing numbers of "have-nots" try each year to migrate to the industrial countries. A recent report on Third World development prepared for leaders of the Commonwealth group of countries concluded that migration could be "the issue of the nineties".

The queue of hopefuls wanting to sup at the rich man's table is long indeed. Eastern Europe and the middle income debtor nations of Latin America are pressing for improved access for their goods in western markets. The Soviet Union and its republics seek the know-how necessary to build a market economy on the unpromising foundations of 70 years of communism and will be seeking cash. Poorer developing countries, having recognised that their future lies with the market economy, have a list of wants encompassing aid, trade, debt relief, investment and education. The problem is that the industrialised world itself faces a difficult period of unspectacular growth and rising unemployment, in which material generosity will be in short supply.

Growth in the 24 industrial countries of the Organisation for Economic Co-operation and Development (OECD) is set to subside to about 1 per cent this year from 2.5 per cent in 1990. The International Monetary Fund has suggested that industrial country growth could recover to 3 per cent next year, but this would only be in line with potential output.

Behind this global projection for the industrialised nations lurks considerable divergence. For the US, Britain and Canada, 1991 will be a year of recession followed by a gradually accelerating recovery. Much of continental Europe has passed through several months of stagnation or near-stagnation. Germany and Japan, which have had the strongest growth of the big industrial countries, are facing periods of slower expansion and, in Germany's case, continuing inflationary pressures.

Unemployment is set to rise in virtually all OECD countries this year and to increase further, or at best stabilise, in 1992. OECD forecasts suggest unemployment in the industrial world will have risen by about 4m to 28.5m in the two years to next June.

A similar mixed pattern of slowdown and recovery is expected in the Third World. As a group, the developing countries grew by only 1 per cent last year after 3 per cent in 1989. But these growth rates were boosted by continued strong growth among the dynamic Asian economies. In Africa and Latin America, growth was minimal while output in eastern Europe may fall by a devastating cumulative 19 per cent in 1990 and 1991.

There are hopes that growth will resume in eastern Europe after bottoming out this year. But it will remain weak compared with that in other developing regions which together are expected to grow by about 2.5 per cent this year and 5 per cent in 1992.

Little of last year's economic slowdown can be ascribed to the Gulf war.

The global slowdown was rooted far more in the industrialised countries as governments tightened monetary policy to curb inflation at the end of the upswing of the 1980s. Although interest rates have since fallen in the US, Britain and other recession-hit economies, the hangover from the last decade will be an additional factor leading to slow growth in the nineties.

Corporations and individuals in the US and other countries entered the new decade with heavy burdens of debt. Banks, badly hit by bad debts, are restricting lending to rebuild battered capital ratios. Most large industrial countries are saddled with current account and budget deficits.

Germany, for example, can no longer act as a supplier of capital to the world because of the huge costs of reunification. Japan still has current account and budget surpluses but has problems elsewhere – in its fragile and scandal-prone financial markets. It is with these constraints in mind that policy makers in both the industrialised and developing world have taken up the cause of structural reform. Industrialised nations can improve their growth potential by ironing out barriers and inefficiencies in areas such as trade, investment, financial market regulation. The hurdles are greater in much of the developing world, where the traditions of democracy and pluralism are much weaker. Accordingly, the IMF and World Bank stress the need for good governance and reduced military spending in poor Third World countries.

But structural policies are no easy option, even for the rich, as the threatened failure of the Uruguay Round of trade liberalisation talks shows.

The Uruguay Round has become a touchstone of the problems facing the interdependent world economy. The progressive liberalisation of the multilateral trading system has boosted global prosperity since the Second World War. World trade, even in the difficult conditions of 1990, grew by 5 per cent – well above last year's global 2 per cent growth.

But wrangling in the talks about difficult areas of farm support, market access, trade in services and intellectual property has demonstrated that obstacles to liberalisation are as widespread in the industrial camp as among the developing nations, if not more so.

Pious declarations, such as the insistence in the London G7 summit communiqué that "no issue has more far-reaching implications for the future prospects of the world economy than the successful conclusion of the Uruguay Round", have had little impact on trade negotiators.

More open trade could help integrate the "have not" nations into a growing world economy. Such a move, however, would be costly for farmers and manufacturers – and politicians – in the industrial democracies.

Yet pressures for change are growing. The summer's failed coup in the Soviet Union highlighted in extreme form the dangers for the west in too grudging a response to the hopes and aspirations of the peoples of the newly emerging, market-based democracies of eastern Europe, the Soviet Union and the rest of the developing world.

IN THIS SURVEY

■ *Editorial production: Phil Sanders*

WORLD ECONOMY 2

Anthony McDermott on trade liberalisation

Ambitious Gatt round

THE next few weeks will decide whether the Uruguay Round of global trade liberalisation talks are to come to a successful conclusion or, as seems likely at present, not.

The Uruguay Round, the responsibility of the General Agreement on Tariffs and Trade (Gatt), which has 102 members and 108 participating in the negotiations, was launched in Punta del Este in September 1986.

Gatt members account together for nearly 90 per cent of world trade and this alone puts a considerable onus on them in the Uruguay Round negotiations. This round, the eighth since the Gatt came into force in January 1948, is its most ambitious trade undertaking, comprising 15 originally-agreed negotiating sectors which were streamlined this April into seven.

These are market access (largely through the reduction of tariff barriers); textiles and clothing; agriculture; rule-making for such areas as anti-dumping, subsidies and specific Gatt articles; intellectual property; institutions and the framework for the implementation of the Uruguay Round results; and services.

According to Gatt, the value of world trade passed $3,000bn in 1989 and increased by 13 per cent to reach a new record of $3,500bn last year, in part because of the 7 per cent depreciation of the dollar against main European currencies. Trade in services is estimated to have grown by 12 per cent last year to a value of $770bn.

In volume terms, trade growth fell from 7 per cent in 1989 to 5 per cent, and a further modest slowdown is expected for 1991. The growth rate for world output also fell from 4 to 3 per cent. Since 1983, trade has grown at about 50 per cent faster than output, maintaining its role as the principal motor of economic activity worldwide.

It is a measure of the ambitiousness of this round that the considerable sectors of services, intellectual property and investment are included for the first time, and that negotiators have undertaken to integrate agriculture and textiles into the Gatt more fully.

The scope of the negotiations is such that the structure and main articles of the Gatt itself are under unprecedented review.

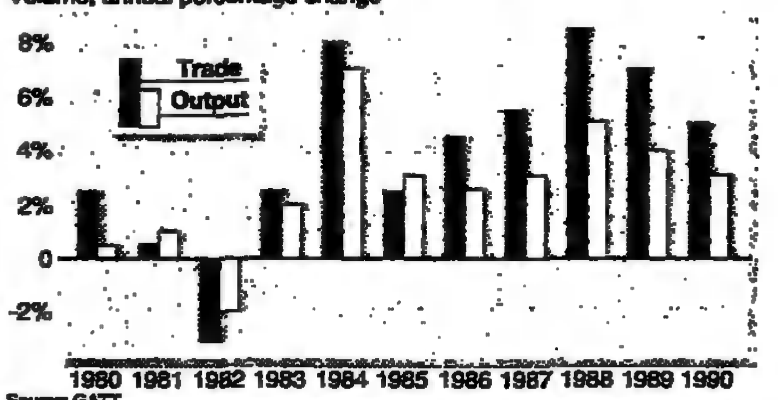
It has been a long negotiating journey of starts, stops and periods of apparent inactivity. Nevertheless there is no designated area of the negotiations – even in agriculture, services and market access – where sufficient technical work has not been done to permit agreement as part of an overall compromise. The crucial missing ingredient has been the political will and environment to cut a deal.

As a result, the negotiations stalled last December in Brussels, at the meeting where they were supposed to come to a successful conclusion. Then several of the participants – but the blame lay above all with the EC and the US – failed to agree on reductions in government supports in each of the three agricultural trade areas: export subsidies, internal supports and market access.

Negotiations resumed in February, and there has been a succession of deadlines set since. But even Mrs Carla Hills, US Trade Representative, the most notable proponent of an end-of-year conclusion, said on July 31 in a reference to the EC's reform of the Common Agricultural Policy (CAP) that "It is going to take four, five, or six months after we see movement in agriculture to wind up the other 14 areas".

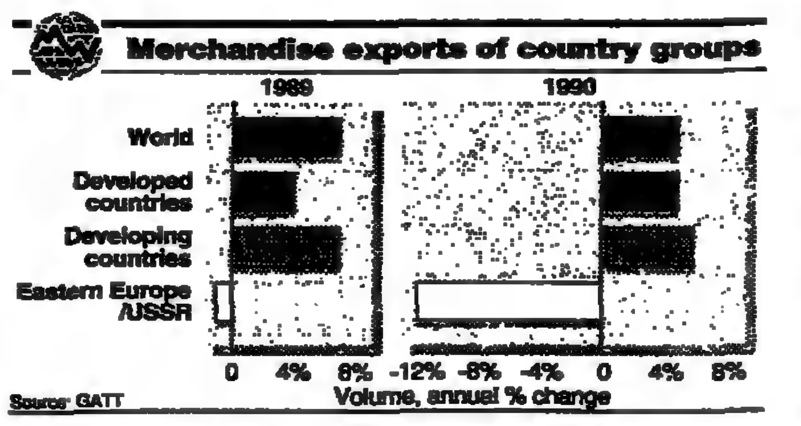
World merchandise trade and output

Volume, annual percentage change



Source: GATT

Merchandise exports of country groups



Source: GATT

On September 20, Mr Arthur Dunkel, Gatt's director-general, called on all delegations to submit by the beginning of November draft agreements in every sector, including agricultural reform, even if further work would be needed on technical details.

Thereafter, Mr Dunkel can, given the limitations of Gatt's authority, only issue a take-it-or-leave-it report and place his hopes on the member-countries of Gatt, in particular, the EC, the US, Japan and Canada, having enough political will to stave off the risk of a complete breakdown of the talks.

Next year, the round could continue to be overshadowed by developments in eastern Europe and the Soviet Union. Western leaders from Canada and Europe to Japan could be changed at the polls. The EC will be moving towards the single economic market. The US presidential and congressional elections in November could raise national and protectionist issues above the global concerns of the Uruguay Round.

And another factor. Last July, Mr Julius Katz, deputy US Trade Representative, who has played an important role in the negotiations, reflected the views of many in saying: "The question is how long you can keep this thing going. It has been going on for five years and people are becoming tired, bored and frustrated".

But while agriculture remains the linchpin of the round, progress in that sector has broader significance. As Mrs Hills has said: "Agriculture is the magnet to get the developing world to deal with the other topics that have no rules now and don't enjoy the participation of 108 countries, namely services, investment, the protection of intellectual property and in general commercial access."

These countries, which make up something like two-thirds of Gatt's membership, have felt particularly vulnerable in confronting these areas because of the steps taken to liberalise their economies and, as a price for joining Gatt, to reduce import tariffs.

Gatt has listed 45 countries known to have undertaken trade liberalisation measures since the beginning of the round. Of these, 30 are developing countries and five from central and eastern Europe. Measures undertaken include tariff reductions and the removal of non-tariff barriers.

In the longer term, the evolution of global trade strategy is at stake. Some trends have already appeared in the form of safety nets in the event of the Uruguay Round failing. Regional economic groupings are emerging and becoming established.

In Europe, the EC is the hub, drawing in aspirants from Efta, eastern Europe and the republics of the former Soviet Union. In the Far East, the countries of the Pacific Rim and the Association of South East Asian Nations have been discussing the formation of regional economic groupings.

In the Americas, the US Canada Trade Agreement of 1989 is being expanded to include Mexico. At the same time it is lining up with the four burgeoning trading groups of Latin America. In the background is the Enterprise for the Americas Initiative, announced by US President George Bush in June 1990, with its three inter-related pillars of trade, investment and debt.

None of these regional groups need be at odds with the multilateral objectives of Gatt unless they become outwardly protective and generate trade behind their barriers.

There are other symptoms. Among non-tariff barriers, there has been a big rise in anti-dumping cases. Between 1980 and 1989 1,456 new cases were reported to Gatt. Australia, the US, Canada and the EC accounted for 95 per cent but, outside these big traders, Mexico, South Korea, Brazil, Finland, New Zealand, Sweden, Austria and Spain have also initiated cases. There are also shades of bilateralism in the US "framework" agreements with 29 Latin American and Caribbean countries. Singapore's is due to be the next one after the Philippines.

Gatt itself has been a fragile forum for these ambitious negotiations. It is a small organisation with an annual budget of SFr75m and a full staff of 400, but none of the authority or standing of a UN organisation. This puts limits on the direct pressure Mr Dunkel can bring to bear on the negotiating parties.

As a result, Gatt's future has been under scrutiny. The G7 communiqué said that "a successful outcome of the Uruguay Round will also call for the institutional reinforcement of the multilateral trading system. The concept of an international trade organisation should be addressed in this context".

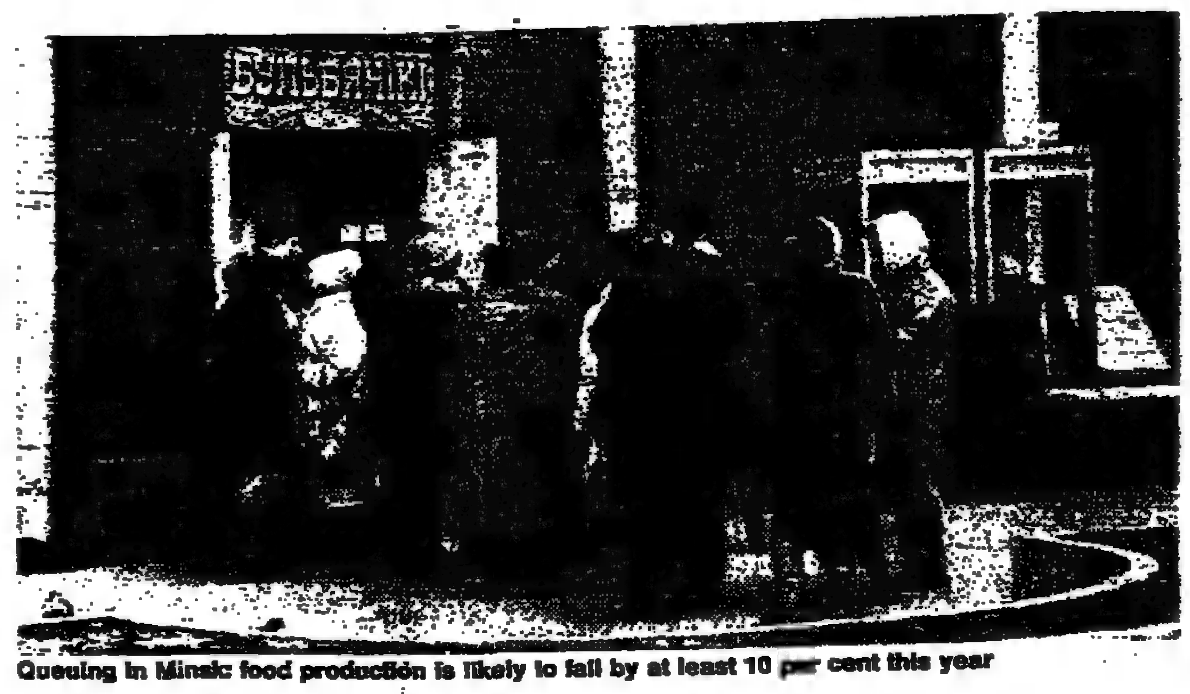
Such a new institution would have to take account of fresh political developments, Gatt's increased membership and become an international trade organisation, such as was envisaged after the Second World War. This would require a permanent secretariat able to incorporate and implement the substantive outcomes of the Uruguay Round.

The United Nations Conference on Trade and Development (Unctad), with it concern for developing countries, has already taken an initiative in this direction. In the end, if global trade is to be fully regulated, the institution would need to stand on a par with the IMF or the World Bank.

Gatt has the nucleus of all these characteristics and since its foundation has established precedents for trade negotiations and regulations and, most important, a disputes procedure. This, if not fully obeyed, cannot be – along with the work done in the 4½ years of negotiations – lightly set aside and ignored, even if the Uruguay Round fails.

Perhaps the most realistic approach is to see the Uruguay Round as the eighth in a line of trade negotiations and not as the one by which the world's multilateral trading system stands or falls.

It has taken more than 40 years for tariffs alone to have been reduced to their current levels. Considerably more time and political determination is needed to reduce them further and to liberalise fully the "new" sectors that the present round took on.



Queuing in Minsk: food production is likely to fall by at least 10 per cent this year

THE SOVIET UNION

Growth and decay while the west debates

THE Soviet Union is undergoing two parallel processes which, in their scale and depth, are unequalled in the history of the modern world.

The first is that it is seeking to join a world economy whose capitalist principles it had attempted for 70 years to defy – indeed, to crush. The second is that the economy it constructed as an alternative to the capitalist one is in full disintegration, its centrally-controlled links snapping and the party and bureaucratic control which drove it broken and disoriented. For the past year, the Soviet figures have been increasingly tragic – and, as ever, contradictory, and probably of doubtful value, except as indications of trends.

These trends seem clear. Industrial production, including food production, is likely to fall by at least 10 per cent this year. Labour productivity will fall by as much. Oil production is falling rapidly, leading both commentators and officials to predict what had not been thinkable: the Soviet Union could become an oil importer before the end of the decade.

Even before the August putsch which destroyed what was left of central control, the financial and banking system was no longer responding to management from the top. The state central bank (Gosbank) now simply prints money as fast as it can to pass on to the central banks of the republics – which are under a political control which demands ever-increased spending.

They have little real leverage on the new, rapidly growing, commercial banks, whose obedience to the rules is occasional and whose operations probably conform to no known standard of regulations.

Inflation, on the most authoritative estimate, is now running at between 2 and 3 per cent a week. The combined budget deficits of the centre and of the republics is more than Rbs100bn, and foreign debt, which is continuing to be serviced but about which there are widely voiced doubts, is over $60bn. Without central authority, and with populist nationalist governments in power throughout the union, there seems no force able to stop hyperinflation and financial collapse.

Worse, there may be insufficient force now to provide adequately for the winter. Cries of impending starvation are heard sceptically within the Soviet Union and abroad because last year, when this cry was made then amplified by the Soviet and foreign media, nothing of the kind occurred. This year, however, there are more serious fears of real shortages: shortages of food because of the worsening of production and distribution systems; and a breakdown in power supply, as stocks of coal and oil run low.

This is the frame within which a picture of disintegration must be set. It is both dangerous and, so far, untackled – although there have been many plans thrown at it.

The co-operative movement, sanctioned four years ago, has grown at the expense of the state sector

With the disintegration, there is also a government commitment – strengthened, at least on the political level, since the failed putsch – to integration in the world economy. With that, there is now in evidence a chaotic, unregulated and part criminal but nevertheless strengthening private sector. The first is reversible; the second fragile – not least because its operations are of the get-rich-quick kind, and are therefore subject to popular distaste on which reaction can fasten.

In the co-operatives, however, and the commodity exchanges, the one-person businesses, the joint ventures, the new media, lie the seeds of a capitalist class which could, given time and assistance, establish a middle class worthy of the description.

The co-operative movement, first sanctioned four years ago, has grown relentlessly – at the expense of the state sector, from which it continues to drain workers, especially those with skill and energy. Often formed by managers in the state sector, only partly covertly, as a way of increasing their income by providing services at inflated prices to the enterprise they already command, they are also founded by fledgling entrepreneurs and by tradespeople filling the many gaps in the woefully deficient service sector.

The wages they offer can be as high as Rbs3,000 a month: five times what is paid to industrial workers in state companies. This overturns the law that the industrial proletariat were at the top of the wages earning league.

Together with individual companies, small enterprises and joint ventures, business leaders claim that 60m people work in, or depend upon, the "private sector" – and that it is now a social as well as an economic force.

To be sure, the business people of Moscow quickly rallied to the side of the Russian government during the coup, personally taking sacksfull of money to the Russian parliament to sustain its defence.

The commodity exchanges, of which there are now more than 500 in the country, are the hubs of commerce, acquiring scarce goods, putting market prices on them and selling them. They are raucous and sharp, run by men and women who are usually young and often crudely acquisitive and arrogant in their assertion of new power. Together with the new banks with which they are often linked, they are a source of venture capital and of training in the market system.

From such blocks a capitalist Russia will be built. As Mr Mikhail Gorbachev made clear in his (pre-putsch) appearance on the stage of the Group of Seven conference in July, this will need help: as far as the Soviet leaders are concerned, a great deal of help is still needed – both in terms of immediate aid ($15bn is the latest figure mooted) and longer-term support for such moves as currency convertibility.

The west still debates the issue, in a variety of forums. Meanwhile, the Soviet Union continues to decay – and to grow.

John Lloyd

■ PROFILE: Lewis Preston, World Bank president

A tough customer

THE World Bank is a curious institution. It comprises 6,000 souls, mostly based in the capital of the world's richest country, devoted to encouraging development in underdeveloped countries.

These individuals, who together carry an unequalled knowledge of the economic problems of the Third World, travel widely and travel first class when they do. Working for the World Bank is not usually a passport to enormous wealth, but with their tax-free salaries, most employees are comfortably off.

The institution is expected to generate profits, but does not have to maximise them. Its job is to promote efficiency in the Third World, but its own inefficiencies are regularly the focus of severe criticism.

The man who, from September 1, heads this unusual establishment is Mr Lewis Preston. Like many of his predecessors, he has completed one career. Now 65, he retired earlier this year as chairman of JP Morgan, the New York commercial bank.

In an era of decline for most US commercial banks, under Mr Preston JP Morgan held and even enhanced its already strong reputation. The former Morgan chairman is a tough customer, said not to suffer fools gladly.

His strengths are organisational but there is little evidence of any prior interest in the idea of "development". His decision to take the job probably reflects, as much as anything, the difficulty of saying no to a personal request from a US president (in whose gift the job effectively is).

During his period as a president and chairman at Morgan, the commercial banks were the *bêtes noire* of the Third World. One of his legacies to Morgan was the clearing of its Third World debt problem by an audacious move to make provisions for the bank's entire Third World debt exposure.

Mr Preston does not seem to feel a strong need to explain to the outside world what he is doing. This is in contrast to his predecessor, Mr Barber Conable, a former Capitol Hill politician who placed a strong emphasis on communication. Mr Conable was a Washington insider to his fingertips – although it probably yielded him fewer benefits than he had anticipated.

Typically, Mr Preston embarked on his expected reorganisation of the bank – with changes among its higher reaches – without explaining his rationale.

His expected initial emphasis on reorganisation, however, will be welcomed by many. The Bank is a rigid and often overweaning bureaucracy where internal debates about the size of a desk or of an office often seem to take on more importance than the fundamental issues that the bank is addressing.

But it will also worry others. The question uppermost in many minds is how well Mr Preston will make the transition from the obsession of a publicly-quoted commercial bank with quarterly results to the longer term objectives of the World Bank.

With the collapse of communism in eastern Europe, and the consequent re-emphasis on the reconstruction part of the bank's original title (the International Bank for Reconstruction and Development), critics of the appointment say vision is needed at this juncture in the bank's history more than ever.

Lewis Preston, 65, former chairman of JP Morgan

The precedent is not necessarily good. The previous tenure of a top commercial banker at the bank – that of Mr "Tom" Clausen, former head of Bank of America who was the World Bank's president in the early 1980s – was widely regarded as an era in which the bank lost its way.

There is also a fear in some quarters of a strengthening of the grip of the US on the institution. This possibility seemed to be enhanced by the appointment of Mr Ernest Stern, the former senior vice-president of finance, as Mr Preston's effective number two. The no-nonsense reputation of Mr Stern, an American, is oddly similar to that of his boss.

A reorganisation of the Bank defeated Mr Preston's predecessor, Mr Conable. Joining with a brief from the Reagan Administration to cut staff, his reorganisation did little more than hit morale. By devolving responsibility for new hirings down the Bank hierarchy, the attempt to reduce the number of employees also failed and proof was given of the resilience of the Bank to outside pressure.

Mr Preston is from a different mould: the largest organisation previously run by Mr Conable was the handful of people who comprised the minority leader's office in the US House of Representatives. There, Mr Conable could choose the battles he fought; at the World Bank he could not.

But the Bank has a reputation too for changing the men (they have all been men) who lead it. It changed even Mr Robert McNamara, the former US defence secretary previously best known for his decision to bomb Cambodia. The bank changed Mr Conable from a domestically-orientated former congressman into a forthright and committed spokesman for the bank's worthy goals such as poverty alleviation. The man the bank seems to have influenced least was Mr Clausen, but he is seen as one of its less effective leaders.

Mr Preston's organisational strength is sorely needed at the Bank, but that is not all that is required. If he succeeds in his new task, he may have found that by the time he stands down his own perspectives will have changed as much as he has changed the Bank.

Stephen Fidler

Stephen Fidler on the international financial institutions

Manifold difficulties

THE international financial institutions – the multilateral development banks and the International Monetary Fund – are central to the debate about how the rest of the world will cope with the collapse of communism in the Soviet Union.

The issue will inevitably dominate the annual meetings of the IMF and World Bank in Bangkok this year.

The difficulties that confront the institutions in dealing with the Soviet Union are manifold. In the first place, the exact shape of the polity that will replace the old Soviet Union is unknown. As a result, they will be attempting to tackle deep economic problems before the constituent republics have resolved their relationships.

This will be compounded by the sheer depth of the economic problem that faces the country. The economies of the former Soviet satellites were devastated by 40 years of communism, but there there was a history of capitalism within living memory. The fact that communism was imposed from the outside also meant a significant popular commitment to a market system. This is not true of the Soviet Union, where the problems are deeper, a market system has never existed and where there is still a wide suspicion of capitalism and capitalists.

Up until the failure of the August coup attempt, the institutions had their hands tied in the extent to which they could assist the Soviets. The idea of associate membership of the Fund and Bank, agreed by the London summit of the Group of Seven industrialised nations in July, will have to be adjusted significantly if it is to provide significant resources to aid economic reform.

Inclusion of the Soviet Union as a full member of both institutions raises a host of other problems, some associated with the necessity of persuading existing government shareholders to give up part of their stake in the institutions to allow the Soviets to join.

The relatively simple task of promoting Japan in the hierarchy of the IMF, finally agreed last year, took months of negotiation. The chance of other countries rapidly agreeing to give up their shares to allow the successors to the Soviet Union a significant stake in the institution seems remote.

The only multilateral financial institution of which the Soviet Union is a member is the European Bank for Reconstruction and Development (EBRD). Nonetheless, under current rules, the Soviet Union's access to funds from the EBRD is limited. This may rapidly be altered, but there are worries that a bigger role for the EBRD and Mr Jacques Attali, its brilliant but mercurial head, would increase the likelihood of stress among the institutions. This has already surfaced in dealings with eastern Europe.

Worries have surfaced that with this focus on the Soviet Union, the two institutions' operations in developing countries will suffer. This is so particularly of the IMF, a smaller, tighter organisation than the World Bank.

IMF officials complained last year that a report on the Soviet economy which they helped to compile unduly stretched the resources of the Fund. This may be alleviated with the fortuitous increase in the Fund's quotas or capital agreed last year (but yet to be ratified by the US).

More fundamentally, the changes in the east have triggered important shifts in the Third World which the institutions must be ready to deal with. The Third World is no longer a battleground for superpower conflicts. The Soviet system had in any case already suffered a long decline as a role model for developing countries. Now many Third World governments are promoting the sort of economic reform that the IMF and World bank have been advocating for years.

Privatisation in many countries has opened up a strong debate about the extent to which the World Bank and regional development banks such as the Inter-American Development Bank should be allowed to lend directly to the private sector. The institutions will also be at the centre of an intensifying debate about what they call "conditionality" – the conditions for external economic assistance and aid. The EBRD led the way, becoming the first international multilateral organisation to carry express political conditionality on its loans. This was possible, it was argued, because there was a broad consensus in Europe about what those conditions should be.


EBRD chief Jacques Attali: brilliant but mercurial

Imposing express political conditions on loans from the World Bank and IMF has in the past been taboo. That is not to say that political relations with rich western governments that comprise the two institutions' main shareholders have never influenced the IMF and World Bank to lend money. They have and, some would argue, all too often.

Nonetheless, the discussion about what the World Bank calls "governance" – or good government – is growing in importance. With the fading of the colonial memory, some industrialised countries are becoming more forthright in raising the issue of express political conditions for aid. And there appears to be growing support in the Third World for the notion that aid should not prop up corrupt governments ruling without popular support.

Linked to this is the debate about whether aid should be forthcoming to countries with high military spending. Previously, this has been a taboo subject because it has been seen as a threat to a borrowing country's sovereignty.

It is a complicated argument; clearly not all countries face the same external threat but clearly also in many countries the military apparatus is simply an instrument of repression at home.

Nonetheless, high military spending has budgetary consequences and often (this from the World Bank's point of view) adverse consequences for development – in that money spent on the military is not being spent on health or education, for example. Money is fungible too – it all goes into one pocket.

Mixed statistics prove hard to interpret, writes **Michael Prowse**

Doubts over US recovery

THE US recession flattened out during the summer but the quality of the recovery remains in doubt in spite of aggressive cuts in interest rates by Mr Alan Greenspan, chairman of the Federal Reserve.

The Fed has cut the discount rate – the rate at which it lends to commercial banks – repeatedly since the beginning of the recession in July last year. Last month it fell to its lowest level since 1973. Short-term interest rates have halved to just over 5 per cent since the economy began to soften in 1989.

With the White House pressing for a bigger stimulus, few analysts rule out a further easing of monetary policy if decisive signs of recovery are not soon forthcoming.

In financial markets, the current mood of scepticism about economic prospects contrasts with optimism in May and June when economic indicators began to turn up. Most forecasters are still predicting growth of 2-3 per cent over the coming year. But the risk of stagnation – if not something worse – is widely acknowledged to have risen.

The doubts partly reflect inexperience in assessing mild recoveries. In the first year of a typical post-war recovery, the US economy grew 6 per cent or more in real terms. There was thus no difficulty in recognising that an expansion was underway. The mixed statistics since the spring are much harder to interpret: bad numbers raise doubts about the durability of the recovery but do not necessitate a relapse.

The most that can be said with certainty is that the recession began to bottom out during the summer. Real gross national product (GNP) fell at an annual rate of 0.5 per cent between April and June – a marked improvement following declines at an annual rate of 2.8 per cent and 1.6 per cent in the preceding two quarters.

Non-farm employment rose at an average monthly rate of 30,000 between May and August. This was a tiny increase in an economy of 109m jobs but a welcome contrast to the average monthly declines of 190,000 between July last year and April.

The length of the average working week also rose noticeably – from 40.2 hours in April to 40.9 hours in August, suggesting that companies too hesitant to hire new workers are extending overtime hours.

Industrial production rose for the fifth consecutive month in August and has made good more than half the decline registered during the recession. Manufacturing output grew at an annualised rate of nearly 8 per cent between March and August. Housing starts in July and August were 16 per cent above the average level in the first quarter of the year.

Demand has also recovered. Consumption spending – roughly two thirds of economic activity – rose at an annual rate of 2.5 per cent in the second quarter. Retail sales fell sharply in August, more than wiping out an increase in July. But most economists still expect overall consumption spending to rise modestly in the current quarter. The latest trade figures showed a sharp rise in imports in July – another sign that demand has strengthened.

The question is whether the economy can build on this foundation. Sceptics worry that the recovery is narrowly based: most of the positive indicators relate to manufacturing, a sector that accounts for only 17 per cent of US employment. Construction and most service industries, including banking and retailing, have been hit much harder than in previous downturns.

Pessimists argue that a surge in consumer and business confidence following the successful conclusion of the Gulf War provided only short-term support for the economy. Consumption ran ahead of personal incomes, which were constrained by stagnant employment. With debt burdens high and savings rates low, the danger is that consumers will retrench, causing companies to rein in production and abort the fragile industrial recovery.

Persistent weakness of money and credit has fanned such misgivings. M2, the most closely watched measure of broad money, contracted at an annual rate of 0.7 per cent between May and August. The Fed's target is for growth of 2.5-6.5 per cent. But the significance of the monetary slowdown is hotly debated.


Federal Reserve chief Alan Greenspan: aggressive cuts

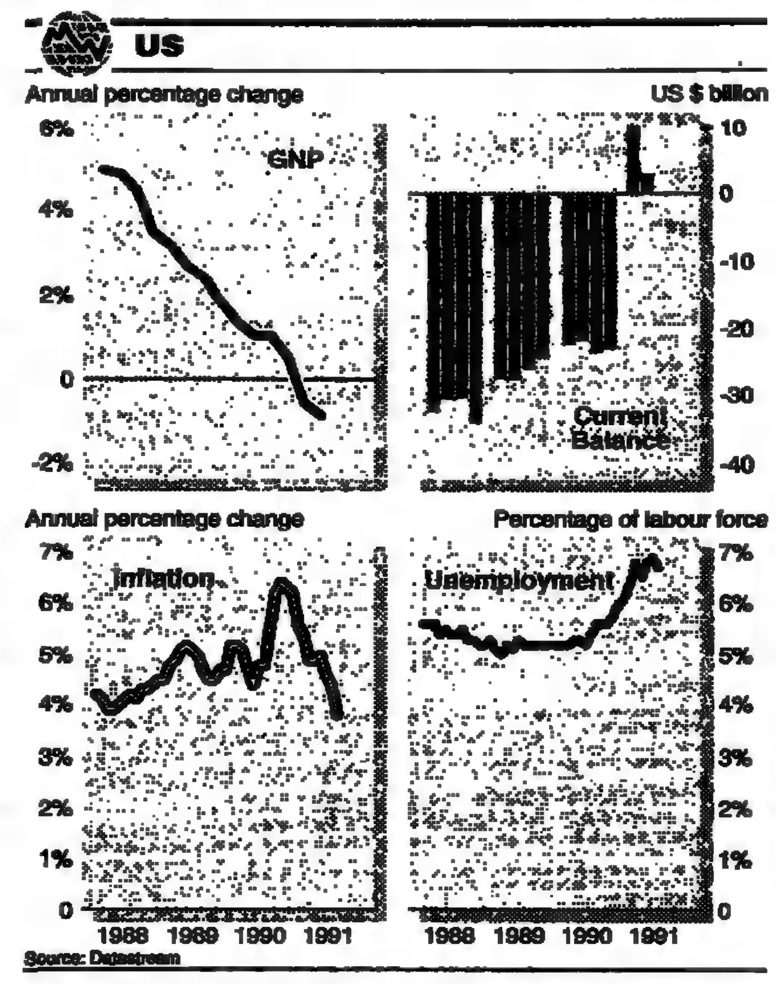
It partly reflects artificial distortions, such as banks' determination to rebuild capital ratios by restraining growth of their balance sheets. This has depressed interest rates on deposits relative to returns on market instruments, causing a switch into bond funds. The Fed, however, appears unconvinced that the monetary slowdown can be fully accounted for by such technical factors.

But even pessimists cannot claim the economic outlook is wholly discouraging. The excessive growth of borrowing and demand in the 1980s led to unsustainable trade and budget deficits. The Bush administration has begun the essential task of rebalancing the economy by shifting resources into export industries. In the first half of the year, export volumes grew at an annual rate of about 10 per cent.

The resilience of exports helps explain the mildness of the recession – output has fallen by just over 1 per cent compared with about 3.5 per cent in 1981/82 – and the improving balance of payments. The trade deficit, which has also benefited from a temporary squeeze on imports, is running at an annual rate of about $60bn – a marked improvement after seven years of $100bn-plus deficits.

Recession, meanwhile, has curbed inflation. The Fed is forecasting underlying inflation of about 3.5 per cent over the next 18 months compared with a core rate of more than 5 per cent last year. The deceleration has been sharp in service sectors where lack of competition led to higher inflation than in industries producing tradeable goods.

But these gains will hardly look worthwhile unless growth picks up soon. Most forecasters are crossing their fingers.



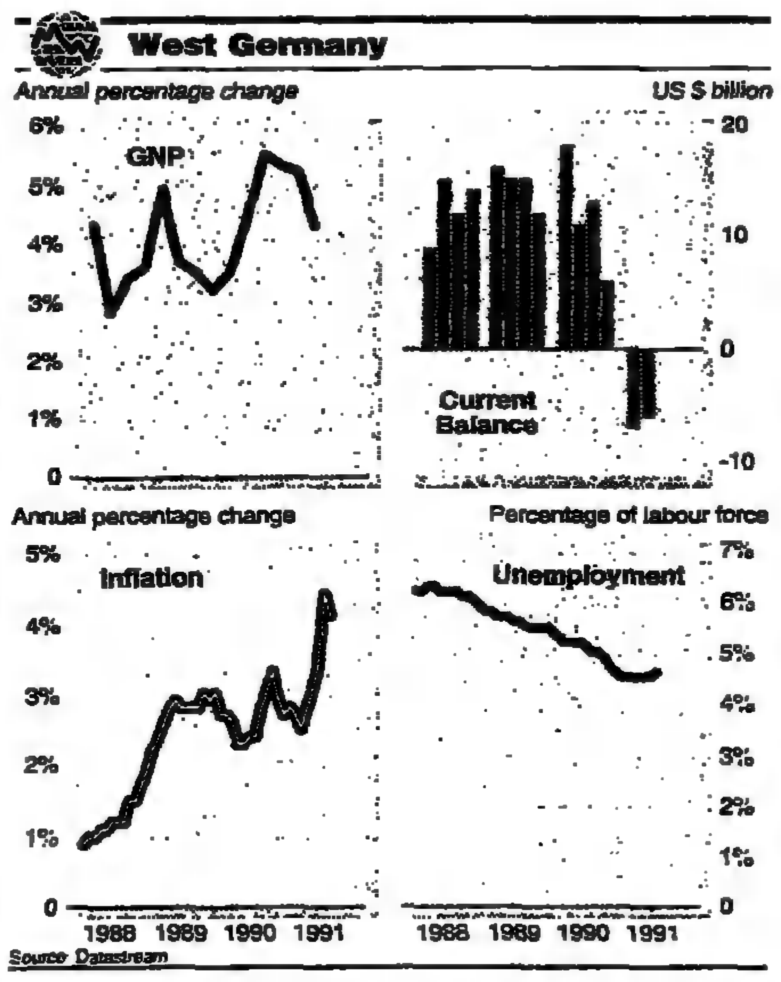
Source: Datastream

The fledgling economic recovery will eventually gather momentum, but only if enough consumers and businesses believe in it.

WORLD ECONOMY 4

GERMANY

Unification and schizophrenia



Source: Datastream

THE most obvious result of German reunification, in economic terms, has been schizophrenia. One country now boasts two economies, travelling in opposite directions.

That at least has been the picture for the whole first year of unification. While the former East Germany has seen the collapse of its industrial base, soaring unemployment, and a surge of emigration, the former West Germany has responded with an acceleration of growth, production at the very limit of capacity, and rising employment.

Now most economists believe that the picture is beginning to change. The slump in the east appears to be bottoming out, although unemployment will continue to rise. As for the west, the boom is slowing down rapidly, but there remains a real threat of overheating, with wage pressures pushing up inflation, the government struggling to control an unprecedented budget deficit, and the independent Bundesbank insisting on rigid control of money supply.

The most remarkable thing about the trauma of reunification is that the pain of absorbing the ossified and autarkic socialist system of East Germany has not been more painful for the west. One year on, however, and the western economy is on a knife-edge.

What actually happened with German economic and monetary union (Gemu) from July 1 1990, is now history. Overnight the East German economy, itself the most efficient part of the East European socialist system, went into virtual free fall. Industrial production collapsed by 43 per cent between July 1990 and February 1991. Overall gross domestic product was down by almost 35 per cent between the first half of 1990 and the same period of 1991.

On the employment front, between the end of 1989 and mid-1991 almost 3m jobs were lost, or virtually one third of the total workforce. It was worse than even the pessimists had feared.

The introduction of an effective conversion rate of one to one for the Ostmark against the D-Mark meant that overnight virtually all East German industry ceased to be competitive. Perhaps even more important was the switch in preference of eastern consumers to western consumer goods.

At the same time, the former markets in the Soviet Union and Eastern Europe were drying up, and from January 1 this year, disappeared almost entirely, as Comecon abandoned trade in transferable roubles, and switched to hard currencies only.

In stark contrast, the "old Bundesländer" of the west were reaping all the benefit of the massive state subsidies flowing eastwards, with the surplus they could not provide coming from imports – thus pushing the balance of trade into deficit for the first time in years.

West German industrial output rose 8 per cent between July 1990 and April 1991, and gross national product by 4.5 per cent between 1989 and 1990 – and is expected to keep growing by 3 per cent this year. The western economy managed to absorb an influx of immigrants from the whole of eastern Europe, more than 300,000 "commuters" from the new Bundesländer, and still see falling unemployment.

The big danger for the German economy now, identified both by the OECD and the main German economic institutes, is of excessive wage pressures in the east (seeking rapid equalisation of living standards) undermining what hopes there are of reviving competitiveness; and of parallel wage pressures in the west, fuelled by the continuing tight labour market, and the hefty budget deficit, leading to overheating of the western economy.

Western growth has started to slow down since the second quarter of the year, as the initial impact of unification wore off. The effect has been accentuated by the tax rises introduced in July, squeezing disposable income in the west, and by the steady increase of interest rates stoked by a cautious Bundesbank. Forecasts now are for a fairly sharp slowdown in the second half of the year, with a slight recovery coming next year, as the international economy starts to pull out of recession. Thus Deutsche Bank, for example, forecasts a growth of 2 per cent in the west next year, compared with 3 per cent in 1991. It also foresees "not inconsiderable risks" in the forecast.

Dresdner Bank comes to a similar conclusion. "The West German economy will undergo severe tests," it says. "Unfavourable price developments and alarmingly high government borrowing create a dangerous potential for conflict regarding the relationship between fiscal, monetary and wage policy." It suggests a slowdown from 3.3 per cent GNP growth this year to only 1.6 per cent in 1992.

The problems are only partly due to German unification, the banks says. The marked acceleration of price increases is mainly a result of rising unit labour costs.

"The German economy is presently on a knife-edge," Dresdner Bank concludes.

In spite of obvious signs of revival in the eastern economy, from its very low present level, they are confined almost entirely to construction and retail trade – both provided with their inputs by the western economy. There is still widespread pessimism about the ability of the Treuhandanstalt, the privatisation agency in the former East Germany, to accelerate its privatisation programme and restructuring of the massive former state-owned conglomerates.

The biggest obstacles lie in an inefficient eastern bureaucracy, and serious problems of property ownership, in attempting to resolve disputes between former property owners and new investors.

In the short term, eastern unemployment seems certain to soar again, as up to 1.6m workers on short-time working, a euphemism for paid unemployment, become officially unemployed.

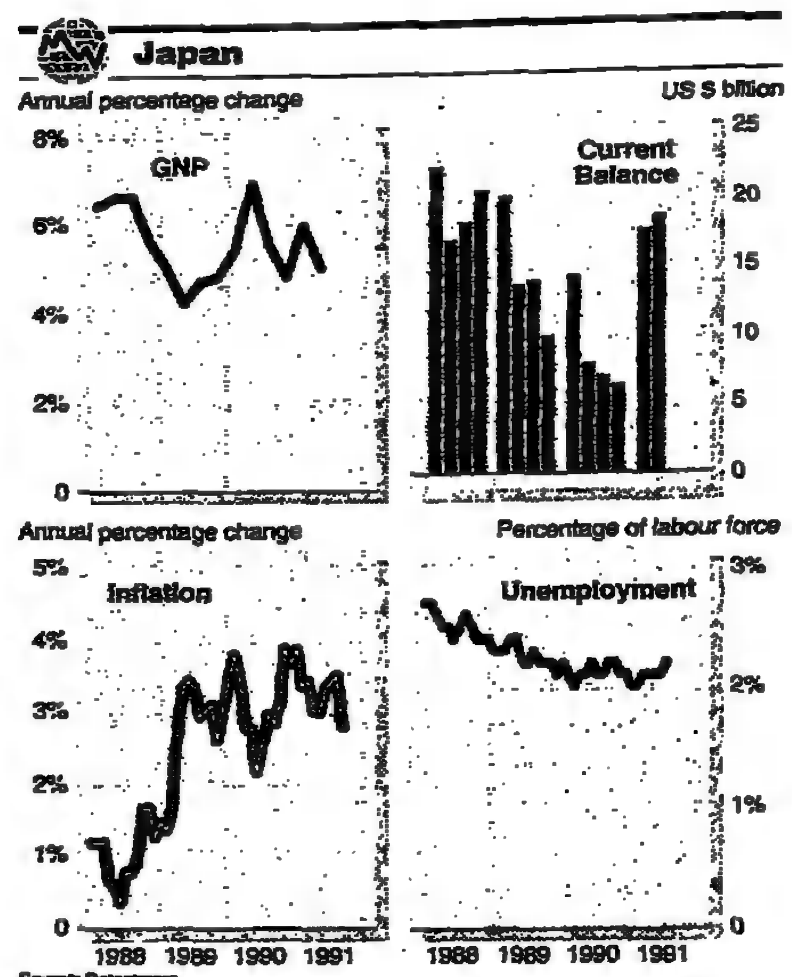
The political sensitivity of soaring unemployment in the east would raise the pressure on the German government to step up its subsidies at a time when it is finding it very hard to cut back on subsidies in the west.

Thus after the early euphoria about unification, the German economy is set for a much more nervous year ahead, with a real possibility of a sharp downturn if the international economy does not come to its rescue.

Quentin Peel

JAPAN

Gradual deceleration



Source: Datastream

HITACHI, the electronics combine, has become the latest on a growing list of Japanese companies which have recently cut investment plans. The group said last month it would reduce planned capital spending in the year to next March by 20 per cent in response to weak demand for memory chips, one of the electronics industry's staple products.

There could be more such announcements in the next few months as the Japanese economy slows down in response to high interest rates, weakening demand and sluggish growth in the world economy.

But even though the decisions of individual companies could sometimes have a serious impact on the groups themselves and on their suppliers and customers, the overall deceleration is likely to be gradual. Mr Yasushi Mieno, governor of the Bank of Japan, has confounded his critics: the tight money policy which he has pursued for the past two years looks set to achieve his twin goals of curbing inflation and curing speculative fever in financial and property markets without plunging the real economy into recession.

Certainly, there have been some very severe shocks in the financial economy – bankruptcies of property and stock market investment companies have climbed to record levels. Banks and other creditors will have to live for some years with a still-growing burden of doubtful debts. Moreover, the debris left by the financial boom contains evidence of some very damaging scandals, which will undermine the reputation of Japan's financial community for a long time.

More nasty surprises may be in store. So far, the authorities have had to organise rescues only for small and medium-sized financial institutions. But the weight of bad debts may yet strain the resources of some larger groups. Nevertheless, the prospect of a system-wide collapse, of which some of Mr Mieno's critics once warned, now seems remote.

Moreover, the financial shocks are taking place in an economy which is still growing, albeit at a slowing pace. In other words, the real economy month by month is becoming more able to absorb the considerable damage wrought by past financial excess.

Last month, the economy set a record for the longest period of sustained expansion in modern Japanese economic history. It clocked up 58 months of growth, exceeding 57 months recorded in the high-growth era of the 1960s. As Mr Kenneth Courtis, senior economist at Deutsche Bank in Tokyo, points out: "The force of this expansion has been so massive that the economy is today larger by the equivalent of the annual French GNP than it was 58 months ago."

Indicators seem to be moving in the direction desired by the central bank. Latest GNP data showed that the economy grew in the second quarter of 1991 at an annualised rate of 2 per cent from the January-March period, down from an exaggeratedly high gain of 11 per cent in the first quarter.

The central bank's survey of business confidence published last month showed a decline in the confidence index from 36 in May to 27 – a result officials said was consistent with gradual economic slow down.

Inflation is declining. Consumer prices in Tokyo last month rose by around 2.8 per cent, falling below the 3 per cent level for the first time in a year. Central bank officials say that inflationary pressures remain strong in areas most affected by labour shortages – notably services. But they believe that prices are now firmly under control.

Also, government statistics have begun to record the widely-reported decline in property prices. According to a government survey carried out in July in Tokyo and Osaka, the two big cities most affected by the price explosion, land prices have fallen in the past year by 1.5 and 15 per cent.

Nevertheless, some private sector economists believe the central bank's view is too optimistic. They argue that the government's target for economic growth in the year to the end of March of 3.8 per cent is slipping out of reach. They see 3 to 3.5 per cent as more likely.

Certain industries offer ample evidence that the slowdown may be more severe than the government and the central bank expect. Housing starts this year are likely to be sharply down from 1.7m in 1990 to around 1.4m, the lowest figure since 1986. Vehicle sales are also falling steadily – forcing makers to cut production and postpone investments.

The outlook is also poor for semiconductors, machine tools and luxury consumer goods, including fashions and perfumes. But, even taking all these into account, the authorities conclude that the overall economy is unlikely to plunge into recession, pointing to strong growth in consumer service industries and in new electronics products.

Exports have also held up well, despite the worldwide economic slow down. Asian countries continue to buy capital goods for their factories; Germany is sucking in cars and other products for sale in its eastern territories; exports to the US have been weak but are expected to recover when the American economy picks up at the end of the year. Combined with a slowing of imports, export growth could push Japan's trade surplus from $63bn last year to $96bn in 1991 and about $100bn next year, according to Nomura Research Institute, research arm of Nomura Securities. Officials at the Ministry of International Trade and Industry fear fresh trade disputes.

For both economic and political reasons, then, the authorities need to maintain domestic economic growth without jeopardising their victories over inflation and speculative investment. The central bank cut the Official Discount Rate in July from 6 per cent to 5.5 per cent and have been gently nudging down market rates ever since, eroding the gap between the official and market rates in preparation for further cuts in the ODR. At least once more reduction is expected before the end of the year. Its size will depend critically on whether the central bank's fears of a possible recession outweigh its concerns about inflation and speculation.

Stefan Wagstyl

BRITAIN

Uncertainties abound

THERE can be little doubt that the UK economy is on the mend. But uncertainties abound as to the shape and strength of the recovery.

For the Conservative government, which has to fight an election by June 1992, this last point is highly important. It would rather go to the polls when the economy is expanding at a healthy rate, rather than seek a mandate from the electorate during a period when a sustained upturn still looks some way off.

In recent weeks Mr Norman Lamont, Chancellor of the Exchequer, has been able to point increasingly confidently to indicators that the recession which started around mid-1990 is trailing off. But even the brainiest economic forecaster is unlikely to help him very much on the prospects for next year.

On the positive side for those looking for a recovery, the decline in manufacturing output appears to have just about halted, and consumer confidence is rising, albeit slowly.

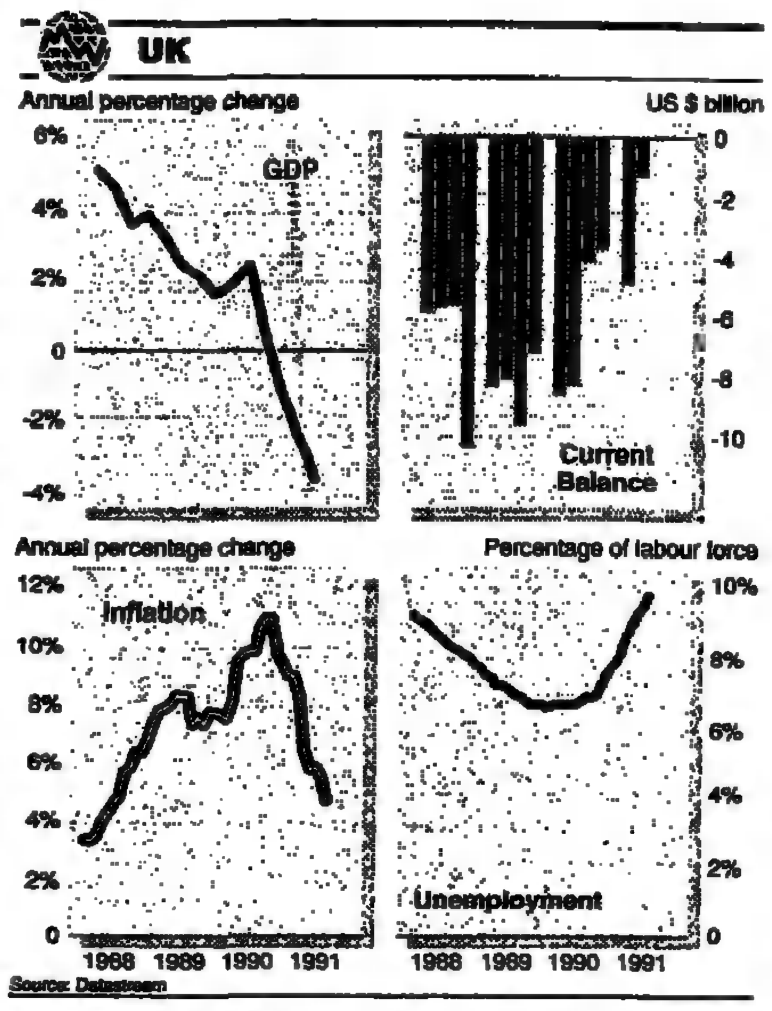
Export volumes rose by a creditable 6.5 per cent in the three months ending in August compared with the equivalent period in 1990. This has boosted hopes that increased overseas demand for UK-produced goods could lift Britain into a period of steady growth during the early to mid 1990s.

Encouragingly for Mr Lamont, other statistics point to a slowing in the rate of contraction of the economy as a whole. Gross domestic product fell by 1.1 per cent and 1.2 per cent respectively in the third and fourth quarters of 1990, as compared in each case to the previous three-month period.

In the first quarter of 1991, the economy contracted by 0.9 per cent, while in the April-June period, the rate of decline was restricted to 0.6 per cent.

Another factor in the government's favour is that inflation, which as measured by the retail prices index peaked at an annual rate of nearly 11 per cent last autumn, was down to 4.7 per cent in August, and will probably fall to 4 per cent or less by the end of the year.

Much of the reduction was due to the effects of demand being squeezed out of the economy by the recession. However, with sterling's exchange rate pegged by Britain's membership since last October of the European Monetary System's exchange rate mechanism, the government's belief is that from now on Britain will be "locked in" to a low rate of price increases.



According to the theory of how the ERM is supposed to work, this will happen through companies no longer being able to anticipate a devaluation of the pound to compensate them for high wage increases, and consequent loss of competitiveness.

The government is relying on two main factors helping the recovery which it believes will gradually unfold over the next year:

- The low-inflation background will encourage companies to invest in plants and buildings and to take on more workers, so laying the basis for steady growth.
- The successive cuts in bank base rates since February 1991 by a total of 3.5 percentage points – from 14 per cent to 10.5 per cent by early September – should stimulate demand over the next year.

Many independent economists share the expectations about an imminent end to the recession, which may show up in figures indicating a small amount of growth in the third quarter gross domestic product, and which are due to be announced in early November.

However, set against this generally rosy scenario are several more gloomy pointers, which could have a big effect in impeding economic growth in the next few years (and by implication could lessen the Conservative government's chances of an election victory).

One of the big question marks concerns consumer spending.

For it to take off, the savings ratio (savings as a proportion of income) would have to come down from its historically high levels of about 10 per cent at the beginning of 1991. However, even the Treasury's own economists think it unlikely the ratio will fall very much before the first half of 1992.

Another issue concerns rapidly rising unemployment, which has climbed 50 per cent since last autumn (from 1.6m to more than 2.4m).

This has cast a pall over the consumer sector, by making people more worried about possibly being out of a job, and thus less likely to increase spending.

Turning to the performance of industry, some sectors, especially cars and chemicals, have shown strong growth in the past six months, with high exports. In the car sector alone, partly due to the effects of Japanese vehicle factories newly set up in Britain, export volumes in the three months to August were up a staggering 47 per cent on the equivalent period in 1990.

In the June-August period of 1991, the export performance of manufacturers as a whole was so good that the sector had a small trade surplus, the first time this part of Britain's trade account has been in the black since 1982.

However, there is some doubt about whether these trends can be sustained, in the face of the likely slowdown in the next year or so in the economies of many of the European nations (especially Germany) which have increased their appetite for UK imports in the past 12 months.

A warning for the UK about its long-term future came in the annual review on the British economy by the 24-nation Organisation of Economic Co-operation and Development, published in August. This said the economy was in fundamentally good shape, but that the growth prospects could be jeopardised by shortages of important skills in industry and by poor training and education.

Backing up this point, Mr Wolfgang Reinicke, an economist at the Brookings Institution in Washington, a US think-tank, says: "In the long run, a country needs to have a good basis in human capital – and Britain has not paid this enough attention."

As Mr Lamont considers the likely growth paths for the 1990s, this is an issue that seems certain to crop up in the consideration of what could go wrong.

Peter Marsh

FRANCE

Once bitten twice shy

AFTER three years of remarkably rapid economic growth, French popular self-confidence has been correspondingly hard hit by this year's steep downturn, which took everyone by surprise. A recovery should be on its way, but the government is determined not to be taken by surprise again, and is being ultra-cautious about the likely strength of the up-turn.

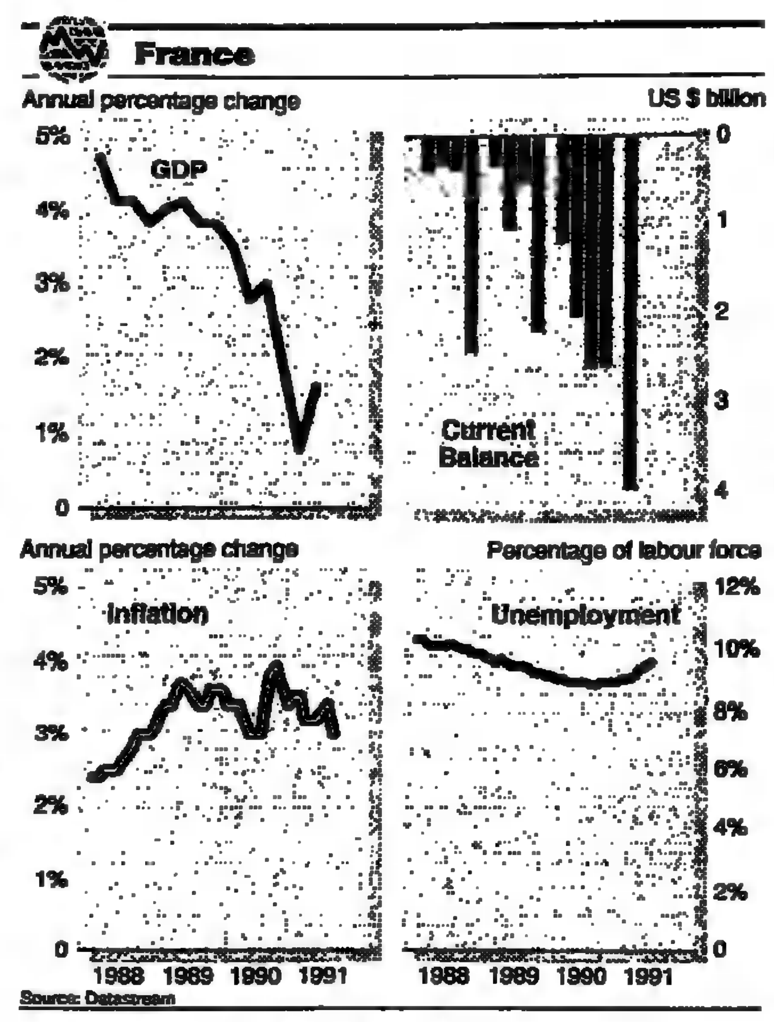
France has not been the only country to have been caught unawares by the current slowdown. A year ago, the Organisation for Economic Co-operation and Development (OECD) forecast that the industrialised world would have an economic growth rate in 1991 of 2.9 per cent; the latest OECD estimate for 1991, issued last July, revised this estimate downwards to 1.1 per cent.

In the case of France, the gap between forecast and outturn has been slightly less severe. A year ago, the government forecast a minimal slowdown, from growth of 2.8 per cent in 1990 to 2.7 per cent in 1991. In the event, the recession has been much sharper, with a growth rate for this year which is likely to work out at only 1.4 per cent.

On the principle of "once bitten, twice shy", the government is now playing safe by forecasting a rather modest upturn for next year. According to the OECD predictions, France ought to see a relatively sturdy recovery in 1992, with growth of 2.7 per cent; but the French Finance Ministry's budget calculations assume no more than 2.2 per cent.

The central reason for this extreme caution is that the priority assigned by the French to their consistent anti-inflation strategy has now been invested with the intensity of holy writ. When the depth of the slowdown became apparent, during the early months of this year, the government's first reaction was not to off-set it by injecting a fiscal stimulus, but to cut back on government spending. This economy drive was politically painful, however, and Mr Pierre Bérégovoy, the finance minister, does not want to make the same mistake twice running.

In any case, the budget reductions were too little and too late to match the decline in tax revenues, which threw a spanner in the works of the ministry's long-term fiscal strategy. Every year for the past six years the French have been cutting their budget deficit, from a peak of 3.3 per cent of GDP in 1985, to 1.4 per cent in 1990. This was a process which started under a Socialist government, continued for two years under a Gaullist government, and has remained unchanged since the return to power of the Socialists in 1988.



When the government drew up its budget for 1991, the deficit was to have come down to FFr80bn, or 1.2 per cent of GDP. In the event, the recession has effectively reversed the previous downward trend, and the budget shortfall for 1991 is wider than originally bargained for, and may well work out at some FFr100bn. With the hope of recovery next year, however, the government aims to return to the path of fiscal austerity with a deficit of just under FFr90bn or 1.26 per cent of GDP.

The Finance Ministry's unwavering commitment to the objective of budgetary restraint is easily explained: it has paid off handsomely. Year in and year out, the inflation rate has steadily edged downwards, and it is now one of the lowest in the industrial world. The current rate of around 2.8 is expected to remain steady next year as well.

Most significant for the French has been the closing of the inflation gap between France and Germany, which is not merely regarded as the traditional benchmark for monetary stability in the European Community, but is also France's major trading partner in both directions. In 1980, the Franco-German inflation differential peaked at 6.7 per cent; last year it had shrunk to 0.6 per cent. This year, for the first time in living memory, French inflation has even slipped below the German rate.

As a result of this steady squeezing of inflation, the authorities claim that the economy is in tolerably good shape to stand up to the current slow-down, and well placed to take advantage of the recovery when it comes. One sign of the current competitive strength of the economy is that French exporters have this year significantly increased their share of the German market.

The achievements of the anti-inflation policy have not been matched by comparable successes in dealing with the main structural problem, the high level of unemployment.

At 2.7m, or 9.4 per cent of the active population, the official French unemployment rate is one of the highest in western Europe. During the years of rapid growth it gradually receded, from 10.5 per cent to 8.9 per cent, but it is now rising again and could reach 3m this winter. The authorities have spent lavishly on job training and work experience schemes, but they have been baffled by how to bring the underlying rate of unemployment down to European levels.

One explanation is that the birth rate has been slower to decline in France than in other European countries, leading to a correspondingly high flow of job-seekers onto the market. Another thesis, increasingly the subject of official speculation, is that the SMIC minimum wage rates may be a deterrent to employment. But the most recent explanation, loudly canvassed by Mr Michel Charasse, the budget minister, is that the French statistics wildly exaggerate the real level of unemployment.

It is a fact that the French definition of unemployment is more elastic than the international norms: the latest budget figures invokes the standard definition of the International Labour Organisation (ILO) and thus represents the level of unemployment as only 2.4m. In more populist vein, Mr Charasse claims that 700,000 of the 2.7m in the unemployment figures are there under false pretences. But unless the authorities follow the British example and simply re-write the figures, the political fact they must deal with will continue to be high unemployment.

This fact will remain a political handicap unless very rapid economic growth returns. And it is a handicap which may well help to guarantee the defeat of the socialist government at the next general elections in the spring of 1993. Yet the paradox is that if one excludes the single issue of privatisation a conservative government would once again be likely to follow a general economic strategy which was indistinguishable from that of the Socialists.

Ian Davidson

David Buchan reports on developments within the EC

Convergence looms larger

AFTER years of fruitless discussions by the Brussels Commission – and idle promises from ministers – about the need for the weaker economies of the European Community to make their performances converge more closely with those of the stronger, there is at last a real stick and carrot to make this happen.

It is economic and monetary union (Emu). Negotiations on Emu now appear likely to come to a successful conclusion in December, barring upsets involving Britain's sovereignty problem or the general debate going on in parallel on European political union.

Therefore, the weaker economies – chiefly Italy, Greece, Portugal, but also to some extent Ireland and Spain – have suddenly woken up the threat that unless they buckle down to curb their public spending and inflation, they might not only miss the start of the planned currency union in the late 1970s, but have to stay out for some time.

Awareness of this has come at an awkward time. This year is expected to see a slowdown in growth of the EC economy to about 1.25 per cent, or half that recorded in 1990, and a rise in average unemployment to 8.8 per cent, according to the Commission's annual forecast, released in mid-summer. Despite the slowdown in activity, inflation is expected to remain high, at an average annual rate of 5 per cent.

Some of this is due to rising prices in Germany. But in the area of public spending, where discipline will be needed in order not to undermine the common monetary policy in Emu, the Commission notes that, because of the slowdown, the trend of recent years towards reducing budget deficits has sadly come to an end.

All 12 states have now recognised, in the context of the Emu negotiations, the importance of convergence. Indeed 10 of them have now said they will submit "convergence" plans to Brussels for common discussion in Ecofin (the Council of Economics and Finance Ministers). The exceptions so far are France and Luxembourg. There is nothing special about these plans; they mostly consist of the standard three- to five-year medium-term projections that governments always have on hand.

But three countries are in more detailed discussions with the Brussels Commission. There is now a joint Commission-Italian committee meeting regularly to review Rome's progress, or lack of it, in curbing its budget deficit. Portugal has always had regular macroeconomic discussions with Brussels ever since it joined the Community. And Greece may have avoided going to the International Monetary Fund this year by taking an Ecu2bn Community loan instead, but the price of this has been supervision by Brussels every bit as close as it would have been by the IMF.

MAIN INDICATORS OF NOMINAL CONVERGENCE PROBLEMS IN THE COMMUNITY IN 1991

	INFLATION		PUBLIC FINANCES			EXTERNAL ACCOUNTS	
	Deflator of private consumption	Nominal unit labour costs	Gen govt net borr requiremnts (% of GDP)	Public debt as a percentage of GDP		Current account balance (% of GDP)	National Savings (% of GDP)
				1991	change from 1990		
Belgium	3.2	3.4	6.5	128.1	0.6	1.1	20.8
Denmark	2.4	1.4	1.3	62.3	-0.1	1.6	19.0
Germany	3.5	5.4	4.6	45.4	2.4	-0.1	23.4
Greece	18.0	14.2	15.3	86.0	-0.3	-5.0	13.8
Spain	5.9	5.7	2.7	44.5	0.3	-2.9	23.0
France	3.1	3.3	1.6	37.3	0.9	-0.9	20.1
Ireland	3.0	4.9	3.8	97.4	-2.4	2.2	21.7
Italy	6.3	6.9	10.1	103.3	2.6	-1.3	19.5
Luxembourg	3.5	2.6	-1.6	4.7	-1.6	26.4	57.4
Netherlands	2.8	3.4	4.8	78.8	0.3	4.0	24.9
Portugal	11.5	14.6	5.5	63.8	-3.5	-1.2	27.1
UK	6.5	8.2	2.2	44.5	1.3	-1.1	14.6
EC	5.0	5.9	4.6	60.0	1.4	-0.6	20.3

Source: 1991 forecasts of the Commission services

Brussels' interim verdict on Greece, the only EC state with across-the-board economic problems, is not very good. "Greece's inflation is going down, its current account is better and reserves are rising", says one official, "but its budget deficit is still bad and nothing is happening on structural reform". Yet there was little dissent when EC finance ministers held their autumnal informal meeting in September and agreed that each country must fulfil a series of convergence criteria before it could enter Emu. The idea of the Dutch presidency of the EC is that general definitions of these criteria will appear in the treaty itself – such as "a high degree of price stability, which is apparent from a level of inflation which is close to that achieved by the member state with the best performance". A more precise definition of "close" would be written into an accompanying protocol.

One suggestion, made in the EC Monetary Committee which is working on this matter, is that the inflation rate of Emu-eligible states must be within 2.5 percentage points of the best among them. Likewise, a debt to GDP ratio of 60 per cent is suggested. For Belgium, Ireland and Italy, with debt-GDP ratios of 100 per cent or more, to get down to that figure in less than a decade would be little short of miraculous.

In fact, the absolute level of a country's economic indicators at any given time is not what matters, but rather the direction and speed with which the indicators are changing. However, there probably also has to be some check that a country cannot get into Emu simply because of a momentary improvement in its economic performance – which is why the Dutch have suggested convergence should be measured over a two-year period.

Ministers also appear to have settled their dispute over what sort of monetary body to set up during Emu's transitional second stage (billed, if all goes well, to last 1994-97).

Italy, France and the Commission have bowed to strong insistence by Germany, the Netherlands and (slightly on the sidelines) Britain, that in stage two there should only be a European Monetary Institute which would only co-ordinate the Twelve's national monetary policies – and that the European Central Bank should only be established when the decision to enter Emu's final stage has been taken and a single currency is in the minting.

But at least three other problems remain:

- Of by far the most political importance is the decision-making procedure to move from stage two to three. The nub of the problem is whether all countries must have a chance to "opt in" to Emu – as Britain would like – or whether all 12 are assumed to be in, unless for reasons of economic incapacity or political unwillingness they "opt out".

Britain's peculiar problem arises from the fact that, for political reasons, it does not want to be singled out in the special exemption clause which the other 11 are ready to grant it.

- While ministers may have agreed, broadly, on convergence criteria in the run-up to Emu, they have yet to tackle the hard question of how much economic discipline will be necessary to prevent monetary union being undermined, once it is established.

It is all very well to agree treaty language forbidding states to run excessive budget deficits, and forbidding the Euro-bank to bail profligate governments out. Such rules need sanctions. But what penalties can in reality be imposed on governments? Fines by Brussels?

- The right decision-making balance still has to be found on external exchange rate policy. At one extreme, it is clear that governments would decide what sort of (fixed or floating) parity the Ecu should have the dollar or yen. At the other, it is settled that the Euro-bank would conduct day-to-day exchange market operations on its own.

But there are middle ground issues – what happens if defending a fixed rate against the dollar is inflationary? – which remain murky and need settling.

EASTERN EUROPE

Focus on privatisation

CREATING capitalism without capital and democracy without a stable middle class is proving a lot more complicated than was imagined when the ideological and physical barriers dividing Europe crumbled two years ago.

In some areas, progress has been faster than expected. The speed with which Poland and Hungary, for example, raised their exports to European Community and other hard currency markets in response to powerful price signals from devalued but internally convertible currencies and lower trade barriers has been impressive.

Likewise, the determination with which Czechoslovakia, Hungary and Poland, the so-called "Central European Three" (CE3) have pushed ahead with plans for large-scale privatisation and redrafted their statute books with EC-compatible legislation is remarkable.

But attempts to create conditions for domestic enterprise and attract foreign investment while slimming down bureaucracies and closing loss-making enterprises is putting all the fragile new democratic governments and societies under immense strain.

The ethnic conflicts in Yugoslavia and the violent attack by Romanian miners on the Bucharest parliament are extreme examples of societies under economic and political stress. But throughout the region, rising unemployment and declining industrial production reflect the painful liquidation of obsolete and overmanned capacity at a far faster rate than new jobs can be created by local entrepreneurs – often tarred by association with the old communist regimes – or by foreign investment which remains very limited.

The problems of re-adjustment have been made much worse by the self-destructive collapse of the trade links with the east, artificially built up over 40 years, which followed the shift of inter-Comecon trade to a dollar basis after January 1. In effect, east and central Europe has borne the brunt of the sharp reduction in Soviet imports from all sources.

Industrial production continues to fall throughout the region, although there are clear signs that the worst of the declines are over in former east Germany and Poland, where the initial contraction was harshest.

If optimistic noises about a construction-led boom developing in the five eastern provinces of Germany are correct, it could provide just the stimulus required to kick-start recovery in Poland and Czechoslovakia as well.

Significantly, foreign investors have made a bee-line for glass, cement and construction material companies – especially in Czechoslovakia with its proximity to the east German industrial centres and relatively modern existing facilities such as the Sklo-Union glass works, taken over by Glaverbel of Belgium.

Czechoslovakia and Hungary remain the most favoured for foreign investment, with Czechoslovakia attracting nearly $600m in the first half of this year while Hungary attracted $680m in the first eight months compared with $300m for the whole of 1990. Hungary's main problem remains its heavy foreign debt of about $20bn gross while Poland has managed to shed 50 per cent of its $33bn official debt burden through negotiations with the Paris Club of creditor governments. Poland moved with surprising speed to privatise the retail and trade sector. Despite the attraction of nearly 40m potential consumers, however, the country has so far been less successful at attracting private investment. Where it has, the results have often been good.

But, despite investment by Fiat, Philips and other multinationals, most investment to date is frustratingly small scale for a country which needs foreign investment on a substantial scale to re-model an economy lumbered with too many large, obsolete plants.

This year, Poland has seen its strong 1990 trade surplus whittled away by a flood of imports, including many consumer items which could well be made at home. The rise in imports reflected the zloty's effective re-valuation through a combination of domestic inflation and virtually fixed exchange rate.

Lower-than-expected receipts from more-difficult-than-expected privatisation meanwhile contributed to a rising budget deficit and higher-than-planned inflation. Failure to reach IMF targets resulted in a cut-off of planned disbursements from the three-year, $1.7bn adjustment loan agreed earlier this year.

All countries in the region reacted with relief to the failure of the Soviet coup. But it also gave a renewed sense of urgency behind the drive to forge closer links with the European Community and speed up the process leading to association as a prelude to full membership before the end of the century.

The social explosion in Romania in late September underlined the particularly parlous state of the "southern tier" countries of Romania, Bulgaria, and Albania while Yugoslavia, formerly the most developed country in the sub-region, has been badly hit by the civil war.

If Slovenia and Croatia emerge as independent states from the wreckage of the old Yugoslav state they will try for EC membership. So will the three Baltic states of Latvia, Lithuania and Estonia which are also expected to try and hitch their star to the "fast-track" C3 countries rather than languish in the slow lane to which the southern tier countries have been relegated by the relative backwardness of their economies and their distance from the economic power centres of the continent.

The aim of eventual EC entry is a powerful focusing point. But it is now clear that bridging the enormous gap between the two sides of the formerly divided continent is more than a question of demolishing old factories, selling assets and encouraging private investment.

The past two years have shown that what was once disparagingly referred to in communist propaganda as "the bourgeois system" is an extraordinarily complex organic structure of laws and institutions. The problem is that such societies were formed over generations.

No-one really knows how to artificially re-create such conditions in a decade. Establishing and and guaranteeing property rights is clearly crucial however and this means the fastest possible – and most comprehensive – privatisation of state or other collectively owned property. This is where attention is now focused.

Anthony Robinson

ASIA

Feeling the strain

DELEGATES attending this year's annual meetings of the International Monetary Fund and World Bank cannot fail to notice – in spite of specially declared public holidays – the strains placed by rapid economic growth on Bangkok's infrastructure.

The city is notorious for its traffic problems. The IMF itself - although it sees Thailand as a model for its economic restructuring policies over the past decade – recently published a study of the economy which noted: "Traffic conditions in Bangkok continue to deteriorate, with the average traffic speed down to 10 kilometres (6 miles) an hour, and chronic traffic jams commonplace; public transportation remains very limited."

The jams are not, however, an isolated irritation. They are symbolic of the challenges facing many Asian countries which are seeking to deal with the fruits of success. Their extraordinarily rapid economic growth in the latter half of the 1980s has pushed infrastructures to the limit, and in some cases beyond.

For a number of countries, infrastructural problems have become potentially a significant bar to future economic growth and to competitiveness in attracting foreign investment. Surmounting them will be an important part of the move to the next stage of development.

It would be wrong to draw too close a parallel between the rapidly industrialising countries of Asia. They differ vastly in size and in degree of development. Singapore's nearly 3m people have per capita income of over $10,000, while the figure for Indonesia's 183m people is only $500. South Korea is clearly facing a set of circumstances far removed from those of, for example, Hong Kong.

Yet despite setbacks in some countries, the region remains characterised by extraordinarily dynamic growth: cautious financial policies, prudent fiscal policies, promotion of export-oriented industries, attraction of foreign investment and emphasis on development of the private sector.

Over the past four years, the economic growth rate of Thailand has averaged 11 per cent, of Singapore and Korea 9.5 per cent, of Taiwan and Malaysia 8, and of Indonesia and Hong Kong over 6 per cent (although the colony's has been declining sharply). Inflation has been low in most of these countries – although accelerating in Hong Kong and Korea.

GDP GROWTH

	1986	1987	1988	1989	1990
Hong Kong	11.9	13.9	7.9	2.3	2.3
Indonesia	5.9	4.9	5.7	7.4	7.0
Malaysia	1.2	5.2	8.9	8.8	9.4
Singapore	1.8	9.4	11.1	9.2	8.3
S. Korea	12.4	12.0	11.5	6.1	8.7
Taiwan	11.6	12.3	7.3	7.6	5.1
Thailand	4.5	9.5	13.2	12.0	10.0

Source: Asian Development Bank

The shocks of the past year, such as the Gulf war and recession in some Western countries, have had differing effects in Asia, providing a temporary windfall for oil producers and boosting costs for oil importers. In general, however, the region has come through remarkably unscathed and remains poised for further dramatic growth.

The trend for Japanese companies to seek production bases in other Asian countries has increasingly been taken up by companies in Korea and Taiwan which have become substantial investors in Malaysia, Thailand and Indonesia – although the consequent imports of capital equipment, coupled with rising consumer demand reflecting greater prosperity, have put pressure on current account balances.

While the current account and inflationary problems are generally thought manageable through prudent policies, the rapidly growing but relatively less developed countries – Thailand, Malaysia and Indonesia – are increasingly facing structural barriers to growth. Over the longer term, so too are Korea and Taiwan which plan heavy spending on infrastructural development.

Singapore, given its small size, has been constantly alert to infrastructural needs, and Hong Kong's long-standing focus on such requirements is further illustrated by its project to build an airport linking with a massive new bridge, a third harbour tunnel and new expressways, railway lines and port facilities.

The IMF study of Thailand, written by four Fund economists, says that although the impact of infrastructural bottlenecks on growth has so far been slight, "it is unlikely to remain so indefinitely unless corrective action is taken".

The economists say the problems are concentrated in the Bangkok region, but that substantial spending will also be required in the south and east of the country. They identify the main areas of development as:

● Roads and public transport. Projects include an elevated light railway, other trains, roads and expressways;

● Ports. New seaports are being built and a second Bangkok airport is planned;

● Telecommunications. The waiting list for telephone lines, at more than 1m, is increasing at three times the pace of installations;

● Utilities. Investment in electricity generation will boost production capacity which has not kept pace with growth in demand. There have been water shortages in Bangkok.

Similar problems are being experienced in other countries and in the same fields. However, bottlenecks do not occur only in physical infrastructure. In Malaysia and Thailand, human resources too have failed to keep pace with the growth and industrialisation of the economies. There is a shortage of skilled labour – particularly important if a transfer of technology is to be achieved by foreign investment. Heavy investment in particular areas, such as in the Kuala Lumpur, Johore and Penang regions of Malaysia, have virtually exhausted the supply of available labour.

The correction of these problems will require heavy spending by governments anxious not to run into fiscal and debt problems. Therefore, they will be hoping to channel domestic savings – the rate of savings is high in most countries – into funding new projects. This, in turn, will require further development and deregulation of local financial and capital markets which are still young.

Unless these challenges are met, foreign investors both within and outside the region will be looking increasingly at other places in which to develop their production bases: at India, now beginning to open up its economy and seek foreign capital; or at Vietnam, likely to see a huge influx as soon as relations with the US are normalised.

The task for economic planners is not easy. While keeping sound economic policies and seeking to remain competitive internationally, they must remember at the same time that significant portions of their population remain below the poverty line. Although the balance of economies has swung away from agriculture towards industry, governments ignore at their peril the large rural communities in which poverty rates are highest.

Alexander Nicoll

Threatening the environment: factory pollution in Hungary

THE ENVIRONMENT

Economics and 'green' issues

ENVIRONMENT and the economy are increasingly inseparable. Environment policies work best if the economics are right and the markets accept them; and policy makers are realising that economic policies are more acceptable if they take account of the environment.

World economic activity poses four risks to the environment: acid rain, ozone depletion, deforestation and the greenhouse effect, or global warming.

Rio de Janeiro will be the host city next June to the Earth Summit. There, the world's environmentalists and politicians will convene to decide what efforts should be made to tackle these risks – and many more – at the highest level.

In terms of economic policy-making now, it could be argued that the delay in the United Nations Conference on Environment and Development – the Earth Summit's official title – until next year has been a hinderance to concrete action. Although the participants are undoubtedly cranking into high gear at the moment – it is thought to be *the* forum for decisions and the strengthening of international co-operation – what has preceded it has seemed little more than procrastination.

In January, a meeting of Organisation for Economic Co-operation and Development (OECD) environment ministers concluded that the biggest industrialised countries should "pursue an environment strategy for the 1990s based on integrating economic and environmental decision-making and improving their environmental performance", with international co-operation in an increasingly interdependent world a priority.

The annual OECD ministerial meeting in June endorsed these "results" and welcomed the OECD's joint work with the International Energy Agency (IEA) on emission inventories, policy instruments and economic analysis of policy options.

The next venue for top-level international attention on the environment was the London economic summit of the world's seven biggest industrialised economies in July. There, leaders debated the environment for only 10 minutes in the four-day event. The event was hijacked by the arrival of Soviet President Mikhail Gorbachev. Mr John Major, UK prime minister and chairman of the G7 summit, dealt with the issue with a few honeyed phrases and a plea for his counterparts to attend the Rio summit.

Environmentalists hopeful that this year would bring progress on economic instruments for the environment have been largely disappointed.

However, last month the European Commission proposed a carbon tax. It said that the Community needed to introduce a package of energy-saving measures including a tax on energy – corresponding to about $10 on a barrel of oil – if the EC was to meet its target of capping carbon dioxide output at 1990 levels by the year 2000.

EC energy and finance ministers are considering the idea and the Netherlands, current holder of the EC presidency, is hoping governments will agree by the end of the year to ask Brussels to produce detailed proposals for negotiation.

Elsewhere, some progress on economic instruments is being made. The US has introduced the tradeable permits – or emission reduction credits – into its Clean Air Bill and a tax on chlorofluorocarbons (CFCs), while the countries of northern Europe are considering "green" taxes. Germany has raised some energy taxes partly in order to finance the clean-up of the five states of East Germany.

But as the Earth Summit approaches, the G7 countries will have to progress faster. They are committed to produce an effective framework convention on climate change which addresses all "sources and sinks" for greenhouse gases. The G7 has also to agree on principles to work towards a framework convention to protect all sorts of forest.

Rachel Johnson

■ PROFILE: Helmut Schlesinger

Rough ride for Bundesbanker

MR Helmut Schlesinger seems the very epitome of financial integrity and monetary stability.

His years of mountain climbing in the Bavarian alps and abroad have left him looking superbly fit for his 67 years. At the Bundesbank, where he has now been in charge for just over two months, he has already presided over a rise in interest rates. At every opportunity, he makes clear his determination to squeeze inflation out of the economy by discouraging high pay settlements and excessive price rises.

After spending 40 years at the German central bank, Mr Schlesinger is a dyed-in-the-wool Bundesbank man. When he joined the institution, it was not even called the Bundesbank; until 1957, it was known as the Bank Deutscher Länder. Before that, he studied economics at Munich University and worked in the city's IFO economic research institute. He joined the Bundesbank's directorate in 1972 after being its chief economist for eight years.

If Mr Karl Otto Pöhl had not decided to step down while only three years into his second eight-year term, Mr Schlesinger would have remained deputy president until the end of his career. As it is, he has taken over at a critical time for the Bundesbank, one of the world's most powerful central banks with an independence that is legally guaranteed.

In a year when inflation has already risen above 4 per cent, Mr Schlesinger has stressed the Bundesbank's intention of sticking to tight monetary policies to ensure that Germans do not become too tolerant of creeping inflation and thus induce a wage-price spiral. This is also, he says, in the interests of countries such as the Netherlands, Austria, Switzerland, and Denmark, whose trade is closely tied to Germany's.

As well as the inflationary risks, he and his colleagues at the central bank are also concerned about Germany's rising deficits and borrowings which have been caused by the high cost of supporting and rebuilding the east German economy.

Schlesinger: determined

Mr Schlesinger has previously advocated more privatisation of state assets to meet some of the public sector's burden. More recently, he has lamented the general lack of understanding in Germany about the need to rein in spending growth, especially at local level. The latest consumer tax rises, introduced to help pay for unity, have already added to inflationary pressures.

The latest evidence shows that the robust west German economy is slowing down, while that in the east seems at last to be picking up. By keeping monetary policy under strict control, therefore, the Bundesbank is treading a delicate path. With more tax rises on the way, including a one point rise in value added tax in 1993, inflation will receive a further impetus. Union negotiators have also been making aggressive noises.

Mr Schlesinger has not, therefore, taken over at the easiest of times. He appears determined to make the most of his two years at the top of the Bundesbank to keep Germany on the path of monetary and financial rectitude. It could be a rough ride.

Andrew Fisher

THE THIRD WORLD

Two vital influences

AFTER the "lost decade" of the 1980s, developing countries are looking ahead to faster growth over the next decade during which per capita incomes could rise by almost 3 per cent annually.

That is the modestly upbeat scenario projected by the World Bank although it warns the going will not be easy, especially since the decade started poorly with estimated GDP growth of no more than 2.3 per cent a year in 1990/91.

Whether output growth can accelerate to offset the ground lost in the first two years and still average 5 per cent will depend on the combination of external influences, especially the growth rate of industrialised countries, and efficient implementation of improved domestic policies, particularly in sub-Saharan Africa.

Domestic policy aside, Third World economic growth will be driven by two vital influences – trade and finance. The World Bank's baseline scenario assumes trade growing faster than in the 1980s, although many developing country governments are understandably sceptical about prospects for the Uruguay Round of Gatt (General Agreement on Tariffs and Trade) talks.

But developing country output cannot grow without substantially higher imports, especially in the debt-stressed economies of Latin America and Africa where protracted import compression has left a legacy of ageing and obsolete capital equipment and in Africa, a fast-deteriorating infrastructure.

Import volumes must grow at 6 per cent a year in the 1990s – up from 2.3 per cent a year – an ambitious, if not overly optimistic, target, given predictions that there will be no terms-of-trade improvement.

In this situation, much will depend on the flow of external finance and debt-relief programmes. Most assessments rule out commercial bank lending – other than to a handful of countries, mainly East Asian, along with Chile, Mexico and Venezuela.

Foreign direct investment flows are projected to increase from $22bn last year to an average of $30bn a year during the 1991-95 period. The Bank forecasts net flows of approximately $105bn annually to the developing world of which $60bn will be aid.

Yet last month's report by Mr Javier Pérez de Cuéllar, the UN Secretary-General, "Economic Crisis in Africa," argues for net aid flows to Africa alone of at least $40bn a year, topped up by debt relief. The incompatibility of these two sets of figures, even without taking east European demand for capital into account, highlights the need for developing countries to attract foreign investment, boost domestic savings and encourage the return of flight capital.

Capital flows will support a balance-of-payments deficit for all developing countries in the order of 1.5 per cent of GDP, which casts doubt on the viability of a 5 per cent growth rate because the investment and import demand associated with faster growth implies a significantly larger current payments deficit.

While the worst is past on the debt front – except in sub-Saharan Africa – the debt crisis has still some way to run. Arrears continue to accumulate, but in the three years to 1990, debt forgiveness programmes reduced the debt of low-income countries by some $6bn or 11.6 per cent of total bilateral debt.

Sub-Saharan Africa's debt profile continues to deteriorate. According to the UN, the debt/GDP ratio rose from 74 per cent in 1986 to 113 per cent in 1990, while scheduled debt servicing absorbs almost 30 per cent of African export earnings. In fact, no more than 60 per cent of that debt-service is being paid, with the balance being rescheduled or the accumulation of arrears.

Debt forgiveness in the past three years totals some $2bn from a debt stock of $148bn, but the French promise to forgive $2.4bn owed by the 35 poorest African countries, and similar pledges by the US ($1.4bn) and Italy ($1bn) should slow the growth of regional debt very significantly.

While 17 of the 19 countries to have benefited from the so-called Toronto Terms for easing Third World debt have been African, the scale of relief has been limited. The 15 countries benefiting from the scheme in 1989 saved a mere $50m in interest payments – less than 2 per cent of their debt-service obligations.

In his recent report, Mr Pérez de Cuéllar asked the west to cancel all bilateral debt ($56bn for sub-Saharan Africa) and export credits, and suggested the 40 per cent owed to multilateral institutions such as the IMF and World Bank should be substantially reduced with the help of the big donors.

Such proposals lack realism at a time when the US and Japanese financial systems are under stress, when there is a huge demand for capital for east Europe and when many voters in Sweden, one of the world's most generous donor nations, have voted for aid reductions.

The bulk of the generally gloomy and unrealistic UN report on Africa's economic crisis – it projects growth of 6 per cent a year against the World Bank's 3.6 per cent – is taken up with what the international community must do to ease the continent's plight. Adjustment, it seems, is more the other fellow's problem than Africa's. Little attention is paid to the urgent need for domestic policy reform by African countries themselves. It would help, too, if there were a greater willingness on the other side of the fence – at the World Bank – to acknowledge the failure of many of its African policies.

The recent claim – by Mr Edward Jaycox, who heads its African operations – that structural adjustment is working in Ghana, Togo and Tanzania is not supported by independent researchers, while numerous studies highlight the failure of reform programmes to revive private investment, domestic as well as foreign.

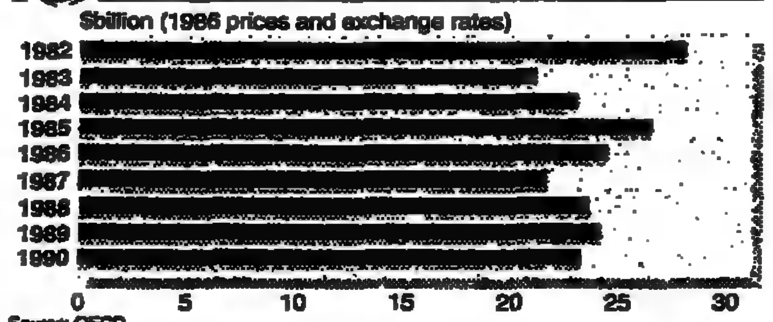
African countries where structural adjustment had some limited success, such as Ghana and Tanzania, are those where the donors are pumping in upwards of $800m annually, with precious little evidence to suggest that these inflows are being translated into self-sustaining expansion.

In the next few years, sub-Saharan Africa will be the testing ground both for the international community's debt strategy and for structural adjustment.

The World Bank desperately needs a success story and the news that Zimbabwe – its latest recruit and one of its last hopes for success – has been forced to turn to the IMF for an enhanced structural adjustment facility to avert a foreign exchange crisis, can only deepen pessimism about prospects for African economic recovery.

Tony Hawkins

Net resource flows to Africa



Source: OECD

Growth in Developing Countries: Performance and prospects

Region	1965-89	1980-89	Baseline forecast for 1990s
East Asia	7.2	7.9	6.7
South Asia	4.2	5.4	4.7
Latin America	4.3	1.7	3.8
Middle-East, North Africa and Europe	4.2	2.5	3.6
Sub-Saharan Africa	3.2	2.0	3.6
All LDCs	4.7	3/7	5.9

Source: World Bank

Peter Norman examines some of the problems of immigration

Difficult economic challenge

THEY looked like ants, crowding every available space on the rusting freighters that brought them to the southern Italian port of Bari.

But the hundreds of Albanians who in August crossed the Adriatic Sea in the hope of a better life in the European Community were more than a local problem for the Italian police. They symbolised one of the most difficult economic and social challenges facing governments in the industrialised world.

The collapse of communism in eastern Europe and the former Soviet Union, rapid population growth in the Third World and the growth of cheap air travel have combined to push immigration rapidly up the agenda of international economic policy makers.

This year, for the first time, all 24 industrialised member states of the Organisation for Economic Co-operation and Development are expected to be receiving countries for immigrants, most of whom will come from outside the OECD.

Nations such as Italy, Spain and Portugal, which have traditionally sent people to other parts of the globe, are facing a growing inflow of mainly illegal, work-hungry immigrants from North Africa and countries further afield such as Senegal and Sri Lanka.

The UN commission for refugees has estimated that there is a latent migratory potential of 25m people in the Soviet Union. Some estimates suggest emigration from the Soviet Union and eastern Europe could average 2m people a year for much of the 1990s, with perhaps 500,000 people a year heading for Germany.

Countries which have traditionally welcomed immigrants, such as the US and Australia, are acting to prevent big inflows of unskilled people.

Australia recently revised the aims of its immigration policy to place greater emphasis on increasing its intake of skilled immigrants and businessmen. The US has for years fought a losing battle to prevent illegal immigrants crossing its border with Mexico. The US Immigration Act of November 1990, while providing for an increase of one third in the annual inflow of permanent immigrants, will result in the issue of a larger number of visas for skilled workers and businessmen wanting to invest and create jobs in the US.

The prosperity of nations such as the US, Canada and Australia is a reminder that immigration can bring significant economic benefits for the host country. West Germany's post-war economic miracle or *Wirtschaftswunder* – and the more recent German economic boom since 1987 – have been rooted in the successful absorption of immigrants from the east.

But the numbers seeking entry into the industrialised world are such that policymakers are talking increasingly of action to stem the flow.

At the EC's Luxembourg summit in June, Mr John Major, Britain's prime minister, warned colleagues that failure to control illegal immigrants would play into the hands of the extreme political right. Chancellor Helmut Kohl of Germany predicted "a catastrophe" if the EC did not produce a common immigration policy by the autumn.

Problems associated with migration were discussed for the first time at the annual ministerial meeting of the OECD in June. The question crept onto the agenda of the Group of Seven economic summit in London in July.

During the first half of this year, three big international conferences were held in Vienna, Rome and Prague in which officials from the industrialised countries and the states experiencing an exodus of their populations discussed the problems of east-west and south-north migration.

Already there appears to be a consensus among the industrialised countries that they cannot absorb vast numbers of immigrants.

In the short term, immigration can impose economic strains on a host country. A large influx of immigrants can boost unemployment, putting a strain on public budgets. Immigration also tends to stimulate demand rather than supply, with adverse effects on inflation and the trade balance.

In the longer term, however, the economic effects of immigration are beneficial. Immigrants tend to be highly motivated individuals with more get up and go than the norm. In the ageing developed nations of northern Europe, where lagging birth rates are causing working populations to fall, immigrants offer the best hope for keeping up the payment of old age pensions and social security benefits.

But such considerations frequently get lost in the political heat generated by the immigration issue. Xenophobia gives Mr Jean-Marie Le Pen, leader of France's extreme right National Front, the steady support of about 15 per cent of the electorate. Last month, Mr Valery Giscard d'Estaing, the former French president, called for tougher nationality rules and warned of an immigrant "invasion".

In Germany, attacks on immigrants and asylum seekers have become a serious problem.

With these pressures in the background, politicians, particularly in Europe, are moving to curb the growing flows of asylum seekers, most of whom are seen as abusing the liberal traditions of their host countries for economic gain.

The Dutch, who took over the EC presidency on July 1, have declared that the harmonisation of asylum regulations in the EC is one of their priorities. But the surge in asylum-seekers in Europe from 14,000 in 1973 to 71,000 in 1983 and 500,000 by 1990 merely felects the pressure of immigration in the face of increased controls on normal inflows.

Some countries such as Italy have bowed to the inevitable and legalised many of the illegal immigrants inside their borders. This has had the effect of bringing vulnerable groups under the protection of the law and social security regimes.

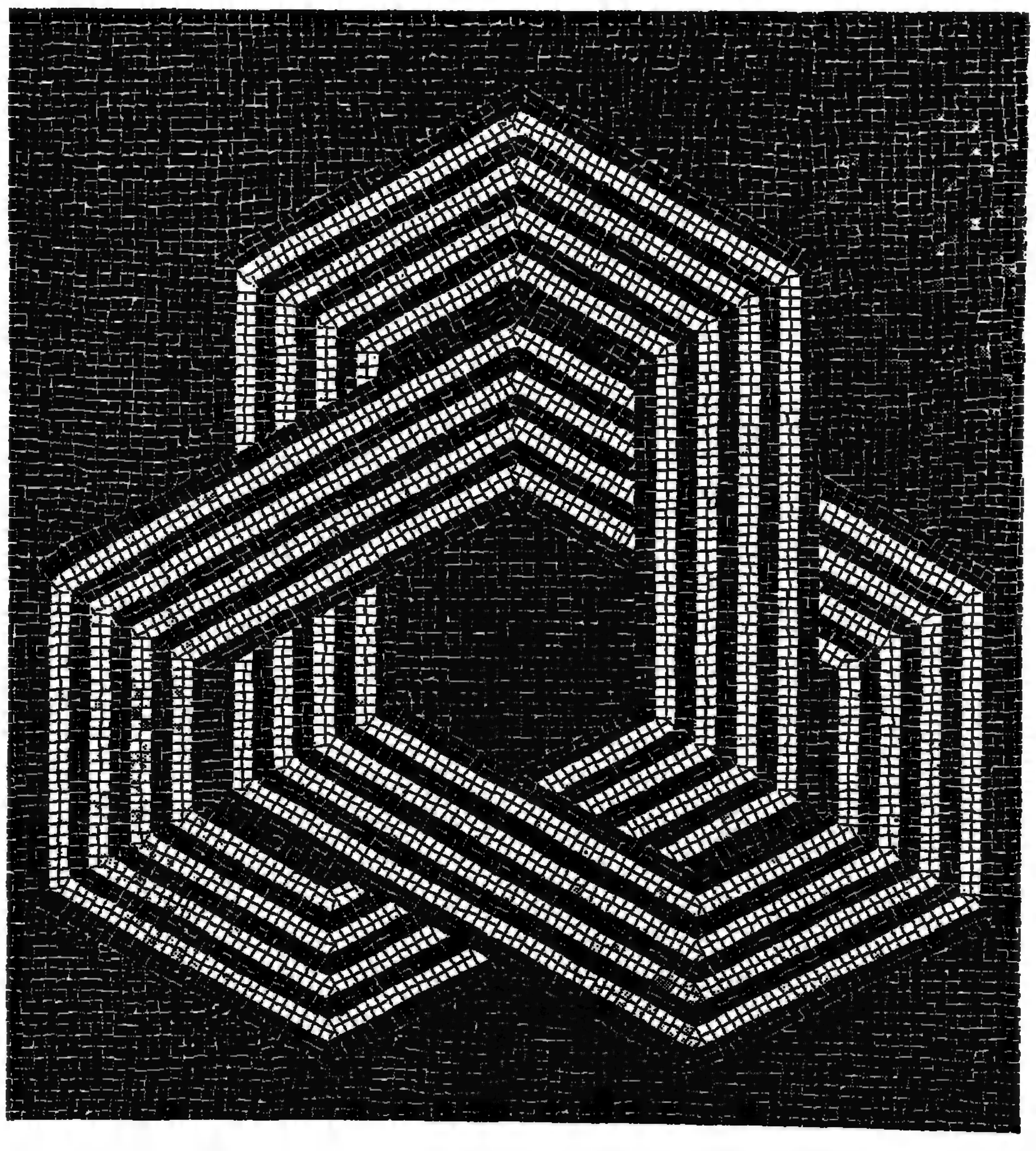
On the other side of the Atlantic, plans to include Mexico in the US – Canada free trade agreement could be the starting point for a longer term solution to the main immigration problem of the US. The planned North American free trade area should encourage investment in Mexico by US- and Canadian-owned companies and so create jobs for people who otherwise might be tempted to seek their fortunes further north.

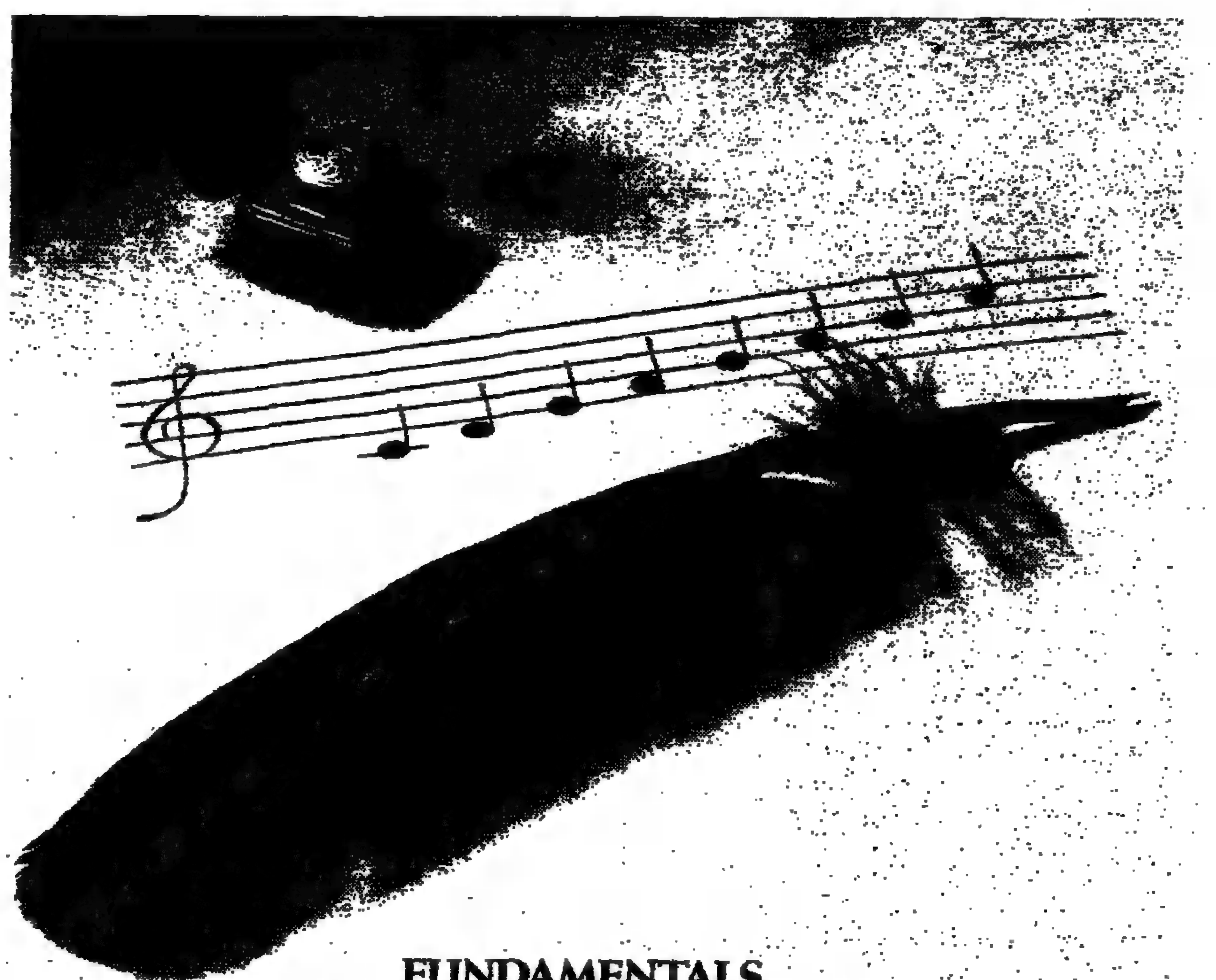
But in general the industrial countries have so far been reluctant to draw such conclusions from the immigration flow. There are signs that dialogue and co-operation is growing between the receiving and sending countries. But there is little chance of the immigration problem being contained, let alone solved, until the industrialised countries decide to encourage economic development in, and trade with, those regions which so many young and not-so-young hopefuls quit each year.

ASYLUM SEEKER INFLOWS

	1983	1985	1987	1989	Average rise p.a.
Austria	5,898	6,724	11,406	21,882	24.4%
France	22,285	28,809	27,568	61,372	18.4%
Germany	19,737	73,832	57,379	121,318	35.3%
Netherlands	2,015	5,644	13,460	13,898	38.0%
Sweden	4,000	14,450	18,100	30,000	39.9%
Switzerland	7,886	9,703	10,913	24,425	20.7%
UK	4,296	5,444	5,160	15,530	23.9%

Source: OECD





BERMUDA

■ Politics and labour relations: tensions beneath the facade Page 2

■ The world's most popular domicile for captive insurance companies Page 4

Monday October 14 1991

Clean, prosperous and safe – as well as expensive – the island state has an economy based on tourism and international business. This winter unemployment may emerge, but Bermuda seems likely to escape serious damage from economic storms, says **Barry Riley**

Storms in the vicinity

IN BERMUDA you can buy a Big Mac, regular fries and a strawberry milk shake at McDonald's, but only on a Wednesday. It is that sort of place.

There is no income tax, but this picturesque little group of islands, hundreds of miles from anywhere in the middle of the Atlantic Ocean, is not a free-and-easy offshore paradise. Foreign exchange controls, a one-car-per-household limitation and some of the world's highest house prices (a simple condominium costs $300,000) are among the burdens borne by Bermudians.

But it is clean, safe and very prosperous. It has turned its isolated position to its advantage. The latest census, taken in August, is likely to show that some 60,000 people live in Bermuda, including many thousands of immigrants attracted by its bustling economy.

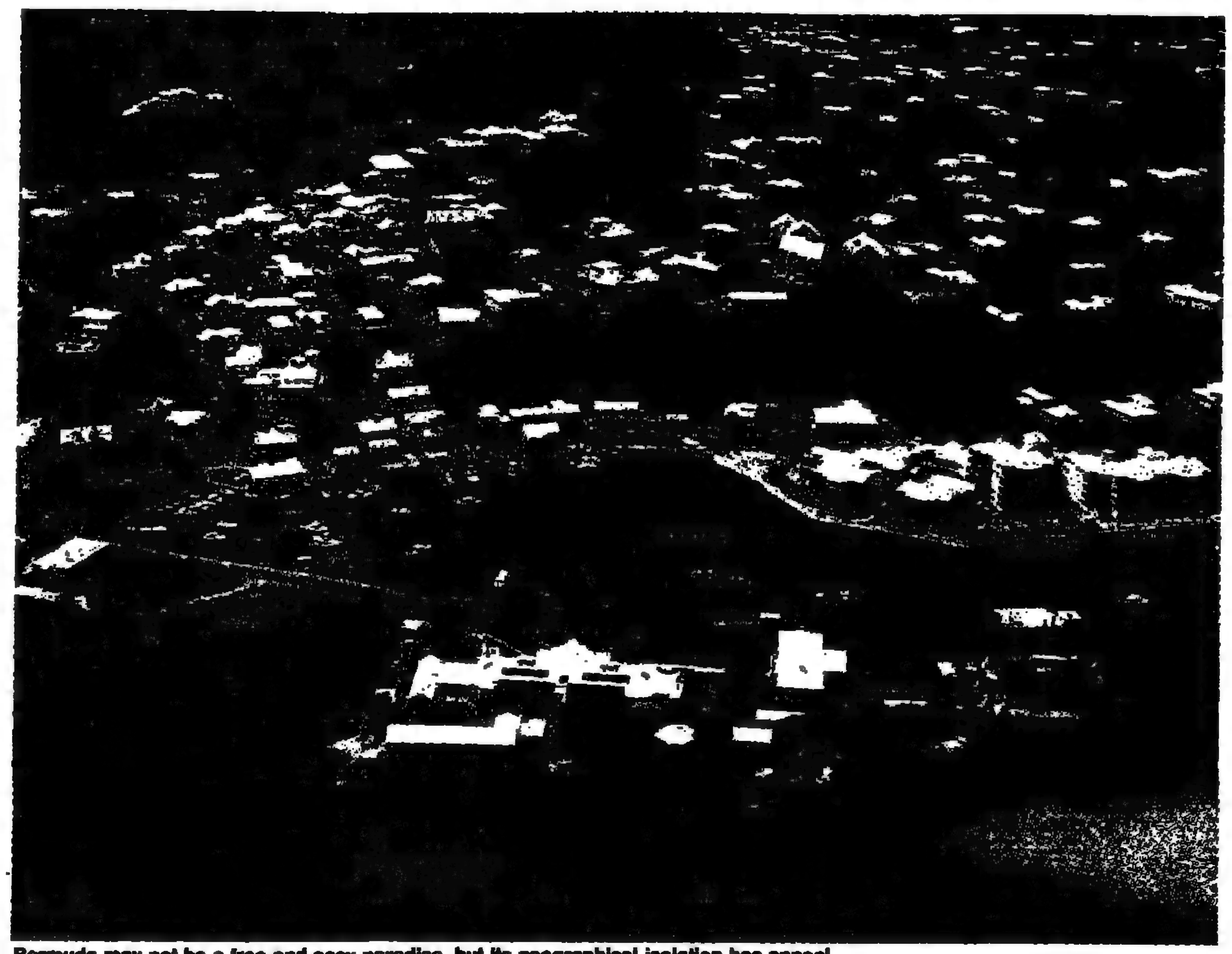
They enjoy one of the highest living standards in the world. Over the past 10 years average incomes in Bermuda have climbed a long way above those in the US, the country to which the island is closest both geographically and culturally.

Just now, however, the unaccustomed shadow of recession hangs over Bermuda. Some say it is the worst economic setback since the war: gross domestic product could fall by anything between 1½ and 3 per cent this year. Certainly there was nothing like it in the 1980s and there are doubts about whether this surprisingly rigid and unionised economy can adjust to such straitened circumstances.

"The big problem at present is that incomes are not flexible downwards," says Mr Brian Archer, a British professor who has produced regular reports as a consultant to the Bermuda government.

But flexibility is essential for a little country which is wide open to the shock waves of a troubled world economy. Bermuda earns its living out of just two industries: tourism and international business.

The first of these has been badly hit by a combination of factors including fears arising from the Gulf War, and the recession in the US (where some 90 per cent of visitors come from). Fortunately, the offshore business activities remain strong, although they do not provide employment for such a wide range of people as tourism does.



Bermuda may not be a free-and-easy paradise, but its geographical isolation has appeal

For tourists Bermuda is different: it has beauty and charm, and it is within easy reach of much of the eastern seaboard of the US, and of Canada. There are good reasons for thinking that the number of American visitors will recover next season as fears of travelling fade. Yet the continuing US recession is a worry, and Bermudians are aware that their country has become very expensive.

The complaints of visitors sampled in the departure lounge of the airport about prices are regularly reported in the Bermudian press. "We charge five-star prices, but there isn't a single five-star hotel in Bermuda," points out one local observer.

Bermuda declines to match the price-cutting tactics of some of the Caribbean islands which are now competing hard for American tourist business. It is aiming for the top of the market. Other destinations may be cheaper, but Bermuda has spotless beaches and spectacular golf courses, while there are no beggars, pedlars, shanty towns or red light districts.

Perhaps, on the other hand, Bermuda risks being dull. Local church influence has been strong enough to suppress plans for a casino, or even for a proposed money-raising state lottery. Rigid restrictions on road use mean that tourists are not permitted to hire cars and must potter around on scooters and mopeds, although maybe in a way that adds to the island's charm. In any case, the universal speed limit is just 35 kph (22 mph).

There are rigid controls on development and on amenities. The only McDonald's allowed in Bermuda is in the US Navy Air Base in the north of the island, and that is because it is on American sovereign territory. Bermudians have access only on Wednesdays.

While tourism has recovery potential, it has little scope for long-term growth. There simply is not the space. Consequently, the government is hoping to achieve continued steady expansion of the international business sector. At the moment it is rather smaller than tourism in its economic contribution, but it is intended that in due course it should reach parity.

Much emphasis is placed on the high-quality image which Bermuda possesses as an offshore centre. It is recognised as being an expensive place to operate from, but on the other hand it has stayed free of drug scandals, banking crashes, political revolutions and the other common hazards of offshore jurisdictions.

The offshore insurance industry has been a remarkable success, moving well beyond the conventional tax haven criteria to develop a genuine critical mass of expertise in reinsurance.

Now the government is moving tentatively to open up part of the banking sector so that international sources of business can be more freely tapped here, too. But this is not without resistance from one or two of the existing banks, which have for long enjoyed a highly protected position.

Bermuda's unique geographical position carries pluses and minuses. On the positive side, the ability of businessmen to catch an early flight to New York, and return the same night if they want to, has been very important to the insurance sector. But the US has been less hospitable in granting access to its banking or mutual fund markets.

The offshore trust business appears to have been focused much more upon Europe and south-east Asia. But Europe's own offshore centres have been refining their images in the past few years and it is notable that Bank of Bermuda has just announced that it plans to set up an operation in Dublin's International Financial Services Centre.

Still, Bermuda is safe and its geographical isolation can have appeal. "Some people would like to establish trusts here because it is that much further away from the European Community," suggests a Bermudian accountant. A lot of Hong Kong companies and wealthy individuals also appear to like Bermuda's distance from the major world economies.

On the other hand, there are many complaints about the inadequacy of the air links with Europe, with only a highly expensive British Airways service to Gatwick Airport, London, which is to be reduced to just two flights a week this winter. Tourism as well as business is threatened by the inadequacy of this connection.

Even the reliability of the daily New York flight during what is likely to be an unusually quiet forthcoming winter season is in question. These worries matter, because the easy availability of flights is important if the tight-packed Bermudian population is to feel it has room to breathe.

Although Bermuda is a British dependent territory there are close links with the US. Large numbers of Bermudians get their advanced education there, or visit for medical treatment. Many services are not available within the territory's 20½ square miles. "You have to go to the US to be cremated," comments a leading resident.

Most days the sun shines on Bermuda, highlighting the lush vegetation and the pastel-washed houses with the characteristic stepped white roofs, used to collect rainwater which must be stored beneath each property in the absence of a mains supply. Occasional rainstorms may not please the tourists but are regarded favourably by the locals – they are "good for de tank".

Economically and politically, however, these are difficult times. Bermuda has the ingredients for trouble, with tension between the black majority and the white minority that calls most of the economic, if not political, shots. There is a constant campaign against widespread "substance abuse". If unemployment begins to appear this winter, as some fear, there will be no social security framework to cope with it.

But last month the threatening Hurricane Claudette safely passed by. Very likely, Bermuda will escape serious damage from the economic storms, too.

IN THIS SURVEY

Editorial production
Gabriel Bowman

BERMUDA 2

Barry Riley reports on the political and labour relations scene

Tensions beneath the facade

BERMUDA PACKS a lot of politics into a small area. Indeed, Bermudians are fond of telling British visitors that if the UK had proportionately as many parliamentary seats as Bermuda has in its 40-member House of Assembly, the home country would have around 5,000 MPs.

Whether Bermuda, with its limited political resources, was wise in the 1960s to develop a two-party system on Westminster lines is a moot point, but it fits in with the confrontational nature of the labour market. The United Bermuda Party arose as a loose grouping of professional and business interests to counter the threat of the Progressive Labour Party. And the UBP has remained in power ever since self-government in 1968.

Currently the UBP, under Sir John Swan, the premier, has 22 seats (including the Speaker's) against the PLP's 15, with the other three members being independents or members of minority parties.

The government's position is comfortable, but the economy is suffering its worst dive for many years – since the war, some argue – and the next election would normally be called in the early part of 1993. It is therefore important for the fortunes of the UBP that there should be a strong economic recovery next year.

The economic squeeze has led to a crisis in the labour market. Bermuda is highly unionised, with over 8,000 union members, and the controversial Mr Ottiwell Simmons, president of the dominant Bermuda Industrial Union, is a powerful figure.

Sir John Swan: needs economic recovery next year

Last month, for example, he harangued government officials for several days at an arbitration hearing involving the pay of more than 1,000 government blue-collar workers. He accused the Finance Ministry of producing misleading statistics.

Repeatedly, Bermuda has had to bring in independent American arbitrators to sort out its pay disputes. In the blue-collar worker case the two sides were estimated to have invested a combined total of 3,000 man-days in negotiations which nevertheless finally remained deadlocked.

The government is nervous of taking a tough line on labour disputes because there are memories of serious social unrest in the past – most recently in 1977 – and the 60:40 black to white racial mix inevitably creates social tensions.

In fact, Bermuda is a peaceful place, but because it is so dependent on tourism and offshore finance any hint of instability could be very damaging. A go-slow at the docks earlier this year, which caused considerable inconvenience, pointed up the problem.

In the recent past, the economy has performed well enough for employers, including the government, to buy their way out of trouble. Now that option has disappeared. The government's response has been to set up a joint select committee of the House of Assembly to examine labour market legislation.

But the committee will not report until next year. And according to Mrs Anne Cartwright-DeCouto, deputy premier: "While one can fine-tune labour legislation it is not legislation itself that is the only key to good labour relations."

For the Progressive Labour Party Mr Walter Roberts, the deputy leader, insists that the workers cannot be blamed for asking for a modest pay increase. He points out that a lot of Bermudian workers rely on having two jobs, and in many cases one of those has been lost – a problem that will grow worse during the coming winter with its unusually high level of hotel industry lay-offs.

Many workers relying on two jobs find that one of those has been lost

He criticises the "vested big business interests in the Cabinet" and the tight money policy of the banks. Meanwhile, many younger Bermudians facing average monthly mortgage payments of $2,000 could get into trouble if the second job which has enabled them to cope with this burden is lost through the recession.

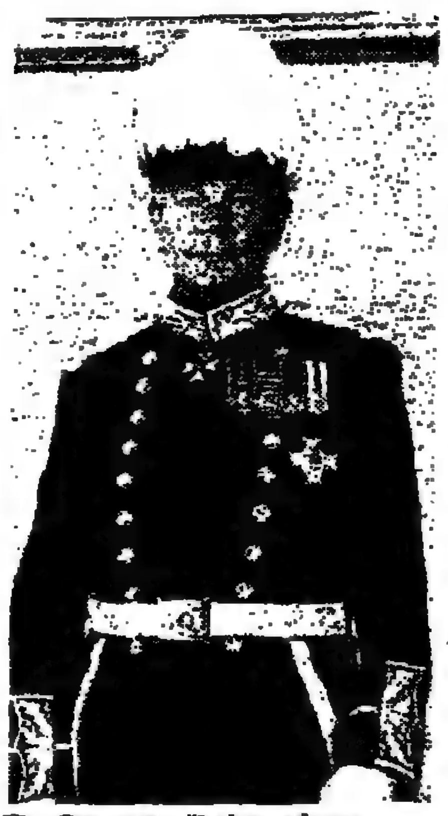
The PLP warns that the recession could make immigration – which is very heavily oriented towards whites – an important issue. There are more foreign-born than native-born whites in Bermuda.

Another controversial issue, independence, seems to have become less pressing, however. Mr Roberts says that first the PLP would want to reorganise the electoral system before going back to the people on the independence question.

Sir Desmond Langley, the Governor, makes it clear that the UK government would grant independence to Bermuda if it were convinced that it was favoured by a majority of Bermudians.

"Independence one day is inevitable," he says. But he adds: "They are a conservative people, and they have taken the view that they would sooner preserve the status quo for the time being."

Politicians point out that independence would bring substantial extra obligations in areas such as defence and diplomacy, although on the other hand it might be possible to escape from the straitjacket of the Bermuda 2 aviation agreement which leaves airline access to the island mostly in the hands of the US and the UK.



The Governor: "Independence one day is inevitable"

Despite the continuing political link with the UK, the major economic and cultural connections these days are with the US. Relations remain very good, and there seem to be no political problems over the US naval air station, where the lease still has some 40 years to run. "I doubt that there is anywhere in the world that the Americans are welcomed as much as in Bermuda," says the Governor.

However, there are some question-marks over the Americans' continuing need for such a base, at a time when one of its main functions, tracking the activities of Soviet nuclear submarines off the US coast, is becoming redundant. There is talk of a new Nato role for the base, but it will remain in some form.

"For the foreseeable future we don't see a phasing out of the US presence here," says Mrs Cartwright-DeCouto.

Bermudian politics inevitably have something of a small town flavour, with rows over problems such as airport terminal cost over-runs and lobster fishing controls. Drug abuse is a growing difficulty, though Bermuda is scarcely unique in that.

A common complaint is that Bermuda is overgoverned, with too many ministers, too many restrictions and too many taxes (Bermuda may not have any income tax, but it is definitely no tax haven). But the PLP does not seem likely to offer any less interference, and quite likely the reverse.

The problems of balancing the island's two industries: tourism and international business

Dial-twiddlers steer through a squeeze

"THEY ARE always seeking a new balance here, they are forever trying to recalibrate the dials," says one informed expatriate observer of the Bermudian economic scene.

Indeed, there has recently been an extreme case of this in the dispute over the number of cruise ship passengers. These reached over 150,000 in 1987 and 1988, causing unpopular levels of congestion, and ship arrivals were scaled back so as to be compatible with a target of 120,000 visitors for the 1990 season.

In the event only about 113,000 arrived, and in 1991 there has been a serious slump in the number of staying tourists. So the dial-twiddlers in the Bermuda government are attempting to boost cruise arrivals again, though such adjustments cannot be achieved at all quickly.

This kind of microeconomic interventionism may be unfashionable in bigger economies, but it has to be said that over the years Bermuda has been remarkably successful. It has carefully nurtured the growth of its two industries – tourism, which accounts for about 55 per cent of economic activity, and international business, which chips in about 40 per cent. The contribution of the US Naval Air Station was estimated at 4 per cent in 1987.

Government policy is to aim at a rough equality of the two sectors, ideally through more rapid growth in offshore business rather than because of actual contraction in tourism, although this year's tourist slump could balance up the sectors too soon and in the wrong way. Meanwhile, international business activity seems to be holding up, and the government is aiming to boost the offshore trust side over the next year or two.

MONEY SUPPLY (M3)

	Amounts outstanding at end-period ($000)	Year-on-year % change
1985	754,473	11.4
1986	890,857	18.1
1987	1,050,530	17.9
1988	1,199,535	14.2
1989	1,249,147	4.1
1990*	1,315,832	3.5
1989 Q1	1,193,619	7.7
1989 Q2	1,244,140	8.2
1989 Q3	1,270,805	7.8
1989 Q4	1,249,147	4.1
1990 Q1	1,258,767	5.5
1990 Q2	1,316,737	5.8
1990 Q3	1,315,832	3.5

*End-September 1990 Source: Bermuda Monetary Authority

The 1980s proved to be a period of impressive economic growth, but the good times have abruptly come to a halt. Gross domestic product fell by about 1 per cent in the last fiscal year to March, and it is feared that a dismal tourist season will lead to a further decline of between 1.5 and 3 per cent for 1991-92.

Politicians and businessmen talk optimistically about a pick-up next spring, and indeed the impact of the Gulf War on tourism this year may have been quite exceptional. However, there are enduring problems. The very economic success of Bermuda has exposed it to greater competition.

Average earnings in Bermuda rose during the 1980s from rough parity with those in the US to a level almost 50 per cent higher by 1990. For a country which is engaged in selling labour-intensive services largely to Americans, and which has a currency pegged to the US dollar, this is an uncomfortable trend which it may not be possible to address simply by pushing the tourist industry further upmarket.

In the short term, this is producing a crunch as the unstoppable momentum of wage demands from a highly unionised workforce comes up against the unarguable reality of falling national income. Stalled labour negotiations are being settled by a series of arbitrations at about 6 or 7 per cent, and although these pay settlements show a downward trend, they are still above inflation which dipped to 4.2 per cent in August.

Because the personal sector is taking a rising share of national income, there is a squeeze on investment and the balance of payments has slipped into deficit. Meanwhile, pay costs are putting pressure on the government's own finances, at a time when it has ambitious plans to spend on a new prison, a waste disposal facility and other projects.

The government ran a $35m current surplus in 1990-91, covering most of its $52m capital spending, but the projections of the overall deficit are being shifted much higher. Given that the government starts from a position of zero debt (though there is some $60m of associated public sector borrowing) there will be no difficulty in raising the finance, but the wisdom of borrowing in US dollars to finance domestic spending can be questioned.

The self-imposed ceiling on government borrowing of 10 per cent of GDP – about $185m – could be reached within a few years, officials accept.

Tourism's drop in income of possibly 6 to 8 per cent this year, against a budgeted unchanged level, is the main factor leading to the recession, but a tight monetary policy is also causing problems for the domestic economy.

KEY FACTS

Area ....53 sq km
Population .... 59,500 (1990 estimate)
Head of State .... The Queen represented by Sir Desmond Langley (governor)
Currency .... Bermuda dollar, at par with US dollar

ECONOMY	1989	1990
Total GDP ($m)	1,484*	n.a.
Real GDP growth (%)	1.5**	n.a.
GDP per capita ($)	25,590*	n.a.
Components of GDP (%)		
Private Consumption	68.7*	
Total Investment	19.5*	
Government Consumption	11.7*	n.a.
Exports	60.0*	
Imports	-59.8*	
Consumer prices (% change pa)	5.5	5.9
Employment by sector (%)		
Agriculture,fishing	1.5	1.6
Manufacturing, power, water	4.4	4.6
Construction	8.0	6.8
Wholesale & retail trade	15.3	15.6
Restaurants & hotels	17.2	17.4
Transport & communications	6.8	7.0
Finance, insurance & real estate	13.9	14.0
Other (mostly services)	32.9	33.0
Tourist arrivals (000s)	547	545
Int. Companies registered	6,776	7,002
Current Account Balance ($m)	96	n.a.
Exports ($m)	50.0	n.a.
Imports ($m)	527.2	526.4
Trade Balance ($m)	-477.2	n.a.
Main Trading Ptnrs ('89, % by value)	Exports	Imports
Switzerland	85.1	
US	1.6	60.9
UK		10.2

* = 1988 figures. ** = Estimate

Source: Economist Intelligence Unit

There were monetary excesses in Bermuda in the late 1980s, as in many other countries, and unduly high lending both in Bermuda dollars and foreign currencies led to a surge in house prices and to excessive consumer demand.

The Bermuda Monetary Authority has leant on the banks to slow the pace of lending, and indeed the growth rate of broad money fell to about 3.5 per cent last year after hitting about 18 per cent in 1986 and 1987. As for foreign currency lending, this is now permitted only when it can be serviced out of overseas income.

According to Mr Jack Outerbridge, head of the L. P. Gutteridge property agency, residential property values have dropped by 12 to 15 per cent so far in 1991. Some local property developers are in trouble, and signs of trouble are beginning to appear in the mortgage business as delinquency rates start to increase. So far, however, the mortgage crisis is being handled through a renegotiation of terms rather than a wave of repossessions.

Some observers see the potential for a sharp financial squeeze generally in the coming winter, as the normal seasonal slowdown problems are exacerbated by the recession and the slump in the construction industry.

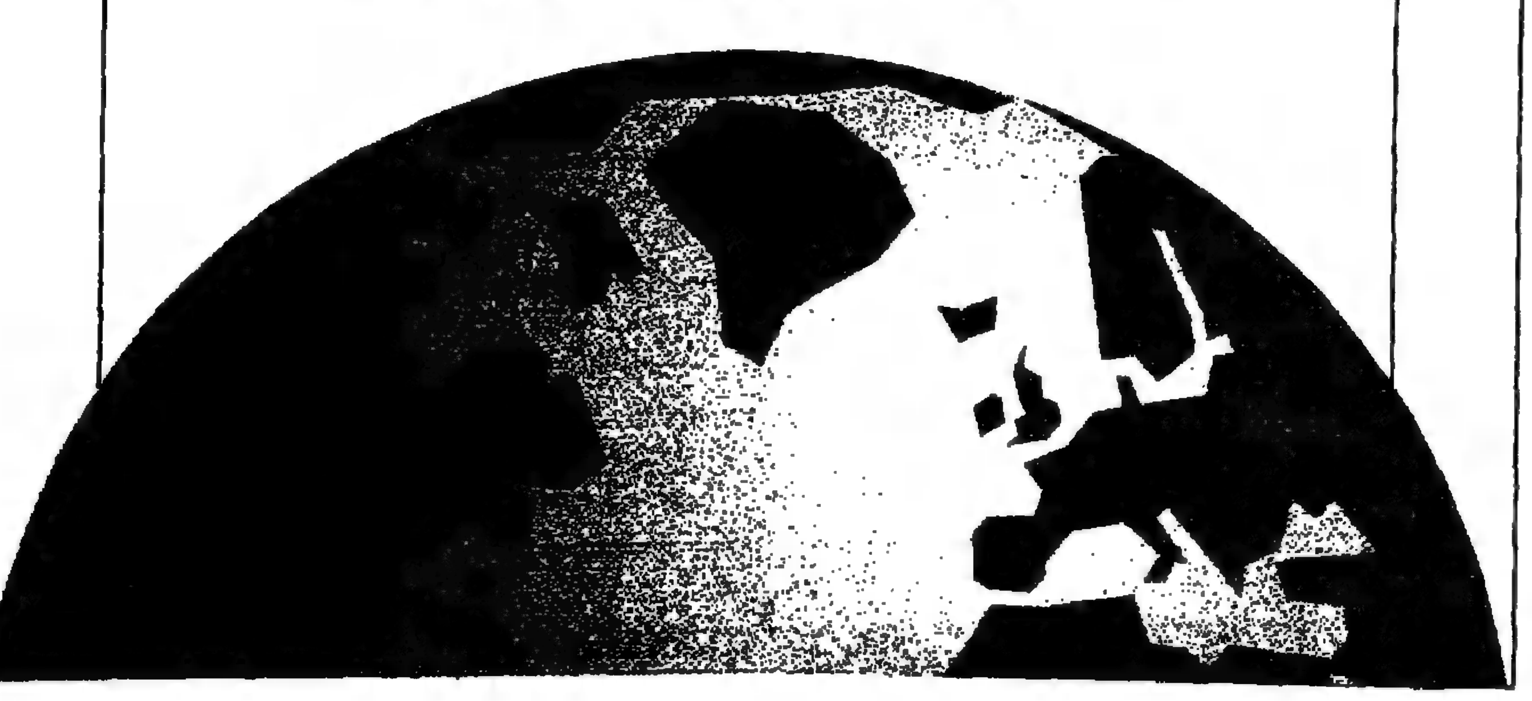
Job totals were already shrinking last year (by 2 per cent) and there have recently been reports that some of the lower-paid expatriate workers, notably the Portuguese, have begun to leave. Hotel lay-offs this winter will certainly be much more extensive than normal.

There are no unemployment benefits in Bermuda, and the social consequences of a serious shake-out in the labour market could be serious. True, there is a big cushion of expatriates, who hold nearly a quarter of the jobs. But it is far from clear that Bermudians could, or would, take over jobs from the wide variety of variously skilled and qualified foreigners.

A crunch as a highly unionised workforce comes up against falling national income

For a country which has repeatedly been able to afford to buy off trouble by means of expensive pay settlements in the past the current situation poses some awkward structural questions. All the same, Bermudians boast one of the highest income levels in the world, with a GNP of around $25,000 per capita, so surely they ought to be able to tighten their belts just once in a while.

Barry Riley



BUSINESS FACILITIES

A popular spot for conferences

AS AN offshore financial centre, Bermuda's business facilities and telecommunications links with the rest of the world are extensive. Ever since the 1988 US-Bermuda tax treaty, which allowed US businesses tax deductibility on meetings held on the island, Bermuda has been a popular spot for conferences and annual company get-togethers.

Among the blue-chip corporations that have held meetings in Bermuda recently are IBM and Jaguar – which launched a range of cars while on the island. The Tourism Ministry hopes the next big event will be the annual meeting of the main association of US life insurance companies.

Getting to Bermuda from the US is easy, from the UK less so. Seven big US airlines service the island: American, Continental, Delta, Northwest, Pan Am, United and US Air. All the carriers fly daily, and some, such as Pan Am's late Friday night and early Monday morning trips, allow for the possibility of regular commuting. Flights from the US eastern seaboard take less than two hours, and with the time difference, only one hour is actually lost in the air.

The only other airline that flies to Bermuda is British Airways, but it has decided to cut its flights from four to two a week for the coming winter. Moreover, flying from London to Bermuda direct is expensive because of the high demand and limited supply of seats.

BA's decision to halve the number of Bermuda flights has angered many Bermudians. Though another European airline may open up a route to the island, there are no firm plans at the moment. That means business travellers will either have to arrange their plans to fit around BA's limited schedule, or fly to the island on a US carrier via a US city. Despite the extra time and inconvenience, it can be cheaper and is an option increasingly used by businessmen.

Direct flying time from the UK to Bermuda is about seven and a half hours.

Once on the island, deciding where to stay is not too much of a problem, because most of the bigger hotels used by business visitors are sited within a few miles of Hamilton (the island itself is only 22 miles long and two miles wide). However, taxis are expensive and can be slow, with a speed limit of 20mph. One of the easiest ways to travel is by the island's network of ferries, which travel from various locations to Hamilton and back.

Of the island's main hotels, the biggest and best-known is the Southampton Princess, which overlooks the island's south shore. It has a range of conference rooms, the largest of which can accommodate up to 1,500 people at a time. The hotel itself has 600 rooms, and in the way of leisure facilities it has an 18-hole golf course, 11 tennis courts, a private beach club, indoor and outdoor pools and a health club.

A short ferry trip away, its sister hotel, the 450-room Princess in Hamilton, can also accommodate large business groups, and its biggest area can take up to 1,000 people. The leisure amenities of the Southampton hotel are available to all guests, but the biggest selling-point for the business visitor is that the Hamilton Princess is only a few minutes' walk from the centre of the island's capital.

The Elbow Beach on the south shore is another big hotel, and after a major overhaul and extensive rebuilding planned for this winter, it will have a 20,000 sq ft convention centre. Other big hotels which can take business groups include the Sonesta Beach, the Marriott at Castle Harbour and the Belmont Hotel. A new large luxury hotel, which starts building later this year for the US group Ritz-Carlton, will have capacity for up to 1,200 convention guests, is due to open in the spring of 1994.

For individual business visitors or smaller meetings, there are plenty of smaller, more intimate hotels. Among the best are the Newstead (a short, ferry ride across the harbour to Hamilton), the Glencoe Harbour Club, the Fourways Inn, the Palm Reef Hotel, and a bit farther away but in splendid seclusion, the Lantana and the Cambridge Beach.

For the business executive planning a longer stay in Bermuda, plenty of support is available from a large community of professional service providers. There are three main banks on the island, a host of law firms, 300 chartered accountants including representatives from the big six accountancy firms, scores of auditors and many computer technology consultants.

All the important companies are represented by the Bermuda International Business Association.

Communications links between Bermuda and the rest of the world are excellent, thanks to Cable & Wireless, the UK group with the exclusive responsibility for connecting the island to international telecoms networks. Services provided to business (and residential) users include reliable international telephone lines, telex, International Data Access Service, which allows subscribers in Bermuda to access computer data bases overseas, electronic mail, international leased circuits (these provide private, dedicated lines of communication for customers with large volumes of voice and data traffic), live telecasting, and a new videoconferencing facility. For the nostalgic, C&W offers a telegram service.

The biggest developments in communications in the past two years have been the arrival of PTAT (Private Transatlantic Telephone), a fibre optic submarine cable that links Bermuda with the UK, the US and Ireland, and CARAC, another fibre optic cable on the seabed that runs to Tortola and the British Virgin Islands to the south of Bermuda. The cables provide much more capacity, a clearer line (no echoes or time delays) for callers to and from Bermuda, and reliability.

Patrick Harverson

THE contribution made by international companies to Bermuda's economy is as important to the island's welfare as the income derived from its main industry, tourism.

Bermuda cannot afford to let either slip into permanent decline, so while tourism revenue has shrunk in the past year because of the US recession, the island's government has focused its energy on ensuring Bermuda remains an attractive location for international companies and on boosting the contributions made by the business sector.

One important step taken by the government to that end was the abolition last year of stamp duties, which had previously been paid by all exempted companies, *ie* foreign concerns incorporated on the island and not subject to the 60 per cent Bermuda-ownership requirement, but which can conduct business only overseas, not within Bermuda.

Stamp duties may have kept some larger businesses away

The government chose abolition after it found that stamp duties on capital – levied both at the time of incorporation and on occasions when capital was increased – were not only unpopular, but may have been keeping some larger businesses away.

As Mr David Saul, the minister of finance, explained in his budget statement to

Patrick Harverson on overseas companies in the economy

Welcome mat for foreigners

parliament last year: "Although some companies are prepared to pay substantial sums to incorporate in Bermuda, it is clear that many are not. For example, the stamp duty cost of incorporating a company with $100m of capital is $250,000. There are few shareholders who will accept a cost of that magnitude."

Other types of stamp duty were also proving a nuisance to foreign companies, and the government felt that the best answer was to abolish stamp duties outright. However, as is the way with all governments, what Bermuda gave with one hand, it took away with another.

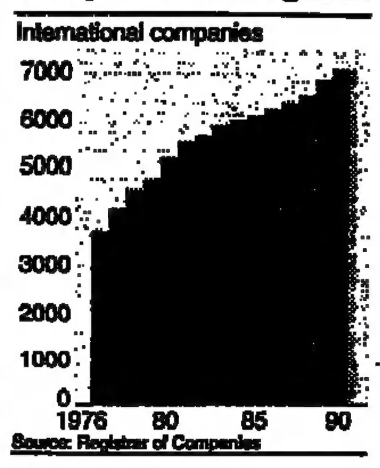
Also announced in the budget was a rise in the hospital levy (a tax that pays for the island's hospital), and for the first time, the levying of an employment tax on international companies. The tax is currently 1 per cent of payrolls, but will rise by a percentage point each year until it reaches its ceiling of 5 per cent.

The government also changed the structure of its company fee schedule to make it more progressive, so that larger companies pay larger fees. Under the new system, companies with capital of $120,000 to $1.2m pay a flat annual fee of $4,800, companies capitalised at $1.2m to $12m pay $6,400, and those with capital of more than $12m pay $8,000. For the 96 per cent of companies that are registered in Bermuda but do not have physical presence on the island, company fees are the only payment required by the government.

Although the budget changes were intended to ease the burden of costs on international companies and make sure they did not receive unfair treatment compared to domestic firms, the government made a concession for insurance companies, which stood to lose out most under the reforms because of their size and the nature of their business. Special relief was granted to insurance firms when the annual insurance business fee was halved, from $2,000 to $1,000.

Mr Saul acknowledged that the budget changes did not meet with universal approval among members of the business community, and that the introduction of an employment tax for foreign companies was strongly resisted. Yet, it is unlikely that the government would have introduced the changes if it thought they would lead to an exodus, however small, of overseas firms from the island.

Companies on register



Source: Register of Companies

The government expects the tax reforms to bring in an extra $2.4m in the current tax year. According to a study of the Bermuda economy which it commissioned last year, international companies paid the government $19m in taxes, duties, fees, levies and licences in 1989. The data showed that the 6,776 international companies registered on the island spent $314m in Bermuda, of which more than half was spent by insurance companies. In September 1991 there were some 7,400 international companies registered on the island.

In 1989, the 270 international firms that had a physical presence in Bermuda employed 1,271 local residents, paying them $52m in salaries (this averages out at over $40,000 an employee, which helps explain why Bermuda has one of the highest rates of income per head in the world). Total business revenue, including secondary effects of spending by overseas firms, was $939m, generating income of $421m.

Since the total gross domestic product of Bermuda in 1989 was $1.5bn, the importance of international companies and the business they bring to the island cannot be overstated.

Foreign companies locate in Bermuda for reasons that are relatively straightforward and have changed little over the years. In no particular order: Bermuda is attractive because there are no taxes on profits or income on the island. The regulatory system is sufficient to maintain a clean financial reputation, but flexible and unbureaucratic enough to leave companies free to concentrate on their business.

Political stability is an important factor, as is the quality of the infrastructure provided by the island's banks, accountants, lawyers and investment managers. Telecommunication links are excellent, and the US is less than two hours away by air and the UK about seven hours away. Bermuda is one hour ahead of the US, and four to five hours behind the UK and the European continent, time differences which suit many companies which do business on both sides of the Atlantic.

The most common complaint about Bermuda is that it is a costly country to work and live in. High salaries and exemptions from most taxes, however, make it worthwhile for foreigners to put up with the expense of living on the island.

Corporate and personal investment holding companies make up the largest contingent of overseas firms, but few have offices on Bermuda or employ anyone locally. The industry with the biggest presence on the island is insurance. About 1,300 captives, reinsurers, and insurers registered in Bermuda wrote $12bn worth of insurance business in 1989, and owned $44.5bn in assets.

The industry with the biggest presence on the island is insurance

After insurance, the next biggest contingent is the commercial trading companies, followed by shipping, natural resources, mutual funds and public finance firms. The fast growing sector of the past three years has been natural resources, and among the big names that run offices in Hamilton are Shell, Chevron and Alcan.

Patrick Harverson on a good year for the insurance industry

Attracting the captives

DESPITE competition from the likes of Vermont, the Cayman Islands, Dublin and the Isle of Man, Bermuda is more than holding its own as the world's most popular domicile for captive insurance companies.

In the first six months of this year, 32 captives were set up in Bermuda, and if that rate of growth is maintained, 1991 will be the best year for the insurance industry on the island since 1987, when 82 captives were formed.

The headline figure of new captive formations, however, does not tell the whole story. The number of net formations is just as important, and so far this year 21 Bermuda captives have been shut – primarily because they had outlived their natural life and insurance costs in the commercial market were more competitive, rather than because they had proved a serious drain on their parent company's resources.

The net gain of 11 captives for Bermuda takes the total number registered on the island to 1,323, which compares with 1,312 in 1990 and 1,314 in 1989. If the pattern of the first six months is maintained for the rest of this year a three-year streak of net declines in the total number of captives on Bermuda – home to half of the world's 2,600-odd captives – will be broken.

This is significant because for the past few years captive insurance business on the established domiciles – Bermuda, the Cayman Islands, Barbados and the Bahamas – has been standing still, while the younger domiciles in Europe and the US have been forging ahead. Leading the battle against Bermuda and its Caribbean neighbours has been Luxembourg (a net increase of 53 new captives last year). Vermont (34), the Isle of Man (28), Dublin (23), and Guernsey (15).

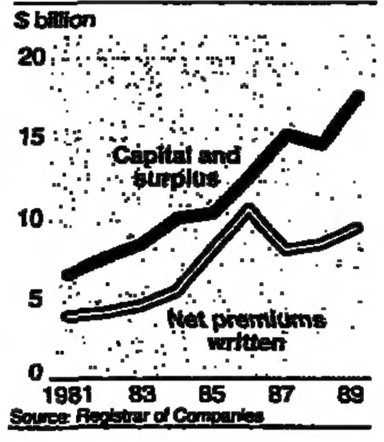
Vermont, well-established as the main US onshore domicile and offering a sympathetic regulatory climate and an affordable premium tax structure, has proved a tough competitor for Bermuda, which has traditionally been the domicile of choice for US corporations seeking to set up a captive. As for the European locations, especially fast-growing Dublin and Luxembourg, they offer favourable tax regimes that are attractive to European and Japanese companies seeking to take advantage of the business opportunities created by the single European market.

Bermuda, however, is fighting back, aided by a perception that the soft US insurance market may be on the verge of turning. (Traditionally, companies set up captives when insurance rates in the commercial market are prohibitively high, while captives are a less popular form of risk management when insurance rates are low, or soft.)

Although evidence that premiums are beginning the long climb upward is sparse, US companies which have recently established captives in Bermuda may be hoping to have programmes in place ready for the return of higher rates and a hostile insurance market.

Companies that have recently formed captives, or

Insurance market



Source: Registrar of Companies

which are thinking of forming captives, however, may have been more influenced by three recent decisions in US courts which went against the views of the Internal Revenue Service (IRS) on tax deductibility and captives.

The Sears, Harper and Amerco decisions were handed down on January 24 this year when the US Tax Court rejected the IRS's theory that captives are part of an "economic family". The IRS had argued that captive parents cannot deduct as expenses premiums paid to its captive, because the parent still retains the financial consequences of its own risks.

This was the first time the Tax Court had allowed for premium deductibility and it was a victory for captives in their long-running battle against the IRS to add to the 1989 judgment by a US appeal court that allowed hospital chain Humana to deduct premiums paid by its subsidiaries to the parent's captive.

The IRS has yet to appeal either Humana or the three 1991 decisions, which suggests it may have conceded defeat on the deductibility issue. Captive managers in Bermuda, however, are being cautious about the court judgments and what the longer-term response will be from the IRS, which has always taken a hostile stance on the issue of how captive insurance business is taxed.

Mr Roger Gillett, senior vice president at Johnson & Higgins (Bermuda), the island's biggest captive management company, would like to see more cases decided in captive owners' favour and some precedents established before claiming victory over the tax authorities. He fears that the IRS, thwarted in the courts, may try to legislate against the decisions.

But Mr Andrew Carr of another Bermuda captive manager, Marsh & McLennan, expected the court judgments to create a bigger stir. "I'm surprised more captives have not been formed to take advantage of the Humana decision," he says.

While these decisions have brightened the outlook for Bermuda's captive community, the attack by US legislators on fronting arrangements continues to cast a cloud.

Such arrangements (when a US company that owns a captive buys insurance from a licensed commercial US insurer, which then reinsures the risk offshore with that company's captive) are widely used by Bermuda's captives.

The National Association of Insurance Commissioners (NAIC) in the US, however, is concerned that fronting could contribute to insurance insolvencies, and wants to prevent licensed US insurers from ceding risk to unlicensed insurers via fronting programmes. It originally proposed a law to ban fronting outright, but under pressure from US risk managers, insurers and brokers, it watered down its proposed restrictions, though it

Captive managers are worried that if the hardliners get their way, the restrictions could kill the use of fronting altogether

still plans to impose tougher reporting requirements on captives used in fronting arrangements.

Although Bermuda's captive managers are not opposed in principle to stricter reporting standards, they are worried that if the hardliners on the NAIC have their way, the restrictions will be so demanding as to kill the use of fronting altogether.

One of Bermuda's most active users of fronting arrangements is The Insurance Profit Center (IPC), a captive management company which rents captives out to corporations that would like to self-insure but do not want to commit capital and management energy to their own captive.

IPC owns Legion Insurance, a Pittsburgh-based insurer which provides the source of fronting arrangements, and Mr Robert Mulderig, president of IPC, says he would be comfortable with tougher reporting and financial requirements. However, he warns: "Introducing anything that attempts to prohibit [fronting] outright would not be an intelligent approach, and it would make no sense to interfere with the legitimate use by captives."

IPC has recently opened a captive management office in Dublin, a sign that Bermuda's captive community does not want to give up business to competing domiciles without a fight. The island's biggest captive managers such as Marsh & McLennan and Johnson & Higgins have also located offices in other domiciles, while still running all captive business from Bermuda.

One of the two big excess-liability insurers on Bermuda has also dipped its toes into international waters. Last October XL opened a Dublin-based subsidiary aimed at capitalising on the favourable tax treatment offered to European companies by the Irish capital. Its main rival, ACE, has not yet decided to branch out into Europe, but has increased its marketing activities on the continent.

XL has cut a new path for itself in the past year; in March it decided to float its shares on the New York Stock Exchange after its shareholders, many of whom set up the company in 1986 during a severe liability insurance shortage, voted to take the holding company, Exel Ltd, public.

ACE and XL were set up because of the mid-1980s liability crisis, and since liability insurance rates have softened and cover has become more available, the two Bermuda companies have struggled to maintain the growth they enjoyed in the first few years of their lives. For ACE and XL, Europe could provide the growth opportunities to offset stagnating domestic business.

One of the most commonly voiced criticisms of Bermuda is the high costs of operating a business from the island. In a move to ease the cost burden, the government abolished stamp duties this year. The abolition should help attract more big captives to Bermuda (stamp duties hit big companies hardest and may have kept some large corporations away), although some of that money was clawed back when extra taxes were imposed on international companies in the form of a rise in the hospital levy.

THE STOCK EXCHANGE

Ping-pong in a sluggish market

SHOULD THE Bermuda Stock Exchange stop playing ping-pong and start entering a global business?

Every Tuesday, the weekly session of the exchange commences with a bizarre ceremony involving the three banks which run the market – the Bank of Bermuda, the Bank of N.T. Butterfield and Bermuda Commercial Bank. Three numbered ping-pong balls are drawn by representatives of each bank so as to establish the order in which they make their bids that particular week.

It is scarcely a dynamic market. The index has ranged sluggishly between 680 and 730 this year. Some 19 Bermudian companies are listed, with nearly 30 issues in all, including preferred stock and bonds. Total market capitalisation is some $550m, with a handful of bigger stocks dominating the list, notably the banks of Bermuda and Butterfield, Bermuda Electric Light and Bermuda Telephone.

There may be a chance to shake free from this backwoods image

But is there a chance to shake free from this backwoods image and set up a modern electronic market that could develop an international business? The idea is taken seriously by Mr Malcolm Williams, general manager of the Bermuda Monetary Authority. He points out that, for a start, some 100 Hong Kong companies have set up holding companies in Bermuda.

"One would imagine that there might be some interest if Bermuda provided a framework which provided for internationalisation of the stock exchange," he says. "A structure might be put into place to enable enhancement to international standards. It deserves to be looked at."

One local enthusiast is an expatriate American stockbroker, Mr Joseph Taussig, who was one of the founders of the Instinet electronic trading system now owned by Reuters. He is setting up an independent stockbroking firm – only the second or third in the island – called First Bermuda Securities and, to begin with, he sees a need to improve the local market for Bermudian stocks.

Looking ahead, however, he argues that an international Bermuda stock market could hope to exploit various niches. It could become a shadow Hong Kong exchange, for instance, in the run-up to the 1997 transfer of sovereignty to China, and elsewhere Bermuda could develop a kind of inter-dealer broking function for the major European and US markets.

Some in Bermuda point to the Bourse in Luxembourg as providing an example of the kind of specialist market which it might be possible to establish in the middle of the Atlantic without the benefit of any economic hinterland.

Obviously, Bermuda would be able to offer tax-free dealing, and it could arrange its reporting and disclosure requirements so as to be attractive, although this would

It could become a shadow Hong Kong exchange in the run-up to 1997

have to be done with discretion if the New York or London markets were not to feel that their rulebooks were being undermined.

Doubters can point to an unhelpful precedent. Several years ago, an attempt was made to set up an electronic market in commodity futures contracts in Bermuda, called Index. That initiative failed.

But Mr Taussig has ambitions. "If securities traders here look at the international marketplace and there are anomalies, they may be able to facilitate the market," he says.

For the time being, however, they are still drawing ping-pong balls out of a hat on Tuesday mornings in Bermuda.

Barry Riley

Barry Riley looks at the professions

Dearth of local skills

WANTED: SEVERAL hundred Bermudian accountants. Urging young Bermudians to go into the profession last month, Mr Dudley Cottingham, chairman of the public relations committee of the Institute of Chartered Accountants of Bermuda, insisted that the common conception of accountants as dull and boring was "just not true". Last month, however, only seven students sat the final exams set by the Canadian Institute to which the ICAB is affiliated.

On typical pass rates, just three or four can be expected to have qualified when the results come out, which is not much for an institute with a membership of some 460.

Though Mr Cottingham deplored the "alarming dearth" of Bermudians in accountancy, that does not mean that Bermuda is starved of financial skills. Quite the reverse, because all the big international accounting firms are represented and there are several small local firms, too. But only about 90 members of the institute are Bermudian, which means that local recruitment and training have seriously failed to keep up with the demands of the fast-growing international business sector.

"It will be way down the road, if ever, that we shall not need overseas chartered accountants to come in," says Mr John Gilbert, secretary to the institute. Only 8 per cent of members qualified in Bermuda, compared with 40 per cent in Canada and 36 per cent in the UK (there are comparatively few Americans).

The toughness of the qualification may have something to do with it. Including a degree course, it takes at least six years to become a professional accountant. In contrast, legal qualifications are generally thought to be a lot easier in Bermuda, and indeed the majority of the 160 lawyers are of Bermudian nationality. After a three-year law degree, the bar exams can be passed after another year, and then just another six-month period needs to be spent in a professional firm for qualification.

"There's a good stream of young Bermudian lawyers coming through," says Mr Frank Mutch, a partner in one of the two biggest firms, Conyers, Dill & Pearman. The other is Appleby, Spurling & Kempe. Historically, the big two were strongly linked with Bank of Bermuda and Bank of Butterfield respectively, but the profession has been opening up, with the establishment of a number of smaller firms and these days the banks employ a broader spread of legal assistance.

The number of lawyers in public practice has more than doubled in the past decade. Most target the lucrative international corporate business, and expertise is regarded as generally high in most areas although Bermudian lawyers cannot be expected to be highly experienced in tax or the most specialised technical aspects of commercial law.

It is a relatively open profession – Commonwealth qualifications are accepted, in the absence of a Bermudian law school – and, given the basic framework of law, it is possible for an English QC to be brought in when it is not possible to handle major commercial disputes locally.

Lawyers, accountants and bankers come together in the Bermuda International Business Association to promote common interests. BIBA works closely with the minister of finance in developing new legislation, for instance the new trust law.

The larger professional firms and the banks all have strong links with other offshore jurisdictions in the Caribbean, Europe and south-east Asia, making it possible for the professional community to keep Bermuda strongly placed in what is an increasingly competitive and fast-moving global offshore marketplace.

REINSURANCE

Big deals in a busy year

THE PAST year has been a busy one for Bermuda's reinsurance community. A newcomer entered the market last year in the form of InterOcean Re, and a well-known local player, Centre Re, was bought by a giant Swiss reinsurer from a US investment bank this year, and then joined forces with another older Bermuda company, Pinnacle Re, last month.

The biggest news was undoubtedly September's $63.7m acquisition of Pinnacle Re by Centre Re, Bermuda's biggest reinsurer with $1.3bn of assets and majority-owned by Zurich Reinsurance since it bought out J.P. Morgan, the US bank, earlier this year.

The deal followed three months of negotiations between Centre and Pinnacle's former owners, UK broking group C.E. Heath. Heath lacked the financial muscle to build Pinnacle into a major player in the niche financial reinsurance market, and had been looking for a buyer for Pinnacle for some time.

By contrast, Centre Re, backed by the financial might of Zurich Re, one of the world's largest reinsurance groups with a $34bn balance sheet, was looking to expand, especially into the UK market. Centre has done most of its business in the US, and Pinnacle, with an established presence in the London market, was seen as an obvious fit.

Arranging the Pinnacle deal was not easy. The main obstacle was the outstanding multi-million dollar lawsuit filed against it by the joint liquidators of Mentor Insurance, the Bermuda captive of the Ocean Drilling and Exploration Corporation (Odeco) which collapsed in 1985 with liabilities of just under $1bn. Pinnacle had provided financial reinsurance for Mentor, and the US liquidators of Mentor filed suit against Pinnacle.

Although the settlement of the litigation – the terms of which were not disclosed – came as a relief to Mr Bruce Swann, Pinnacle's chairman, he was disappointed at not getting the chance to clear the company's name in court.

Once the litigation was settled, Pinnacle and Centre sorted out the details of the deal relatively rapidly. Under the arrangement, which should be approved by Heath's shareholders this month, Centre Re will take over Pinnacle's book of business and staff while Vertex, a newly formed holding company owned by Pinnacle's management, will buy Pinnacle's shares for $63.7m. Pinnacle and Vertex will eventually be liquidated, leaving the former Pinnacle people running a new outfit, CentreLine, as a subsidiary of Centre Re.

CentreLine, under the management of Mr Swann and his team, will then take on all of Centre Re's time and distance reinsurance portfolio (no-risk policies which guarantee the insured a specific future payment based on the premium paid and the money the reinsurer makes from investing that premium), and add it to Pinnacle's premium book of $155m, primarily financial reinsurance for Lloyd's of London syndicates. It will initially be capitalised at around $50m, and should become the largest single reinsurer of Lloyd's.

The birth of CentreLine will add more weight to Bermuda's already hefty reinsurance industry. Before the Pinnacle-Centre deal, seven financial reinsurers on the island at year-end 1990 had combined capital and surplus of about $511m, and more than $3.4bn in assets.

The newest reinsurer in Bermuda is Inter-Ocean Re, owned by American Re of New York and 10 other international companies from across the globe. It was set up last October with an initial $25m of capital, which the owners have pledged to increase up to $100m. Inter-Ocean will provide financial reinsurance for its owners, and for other insurance companies, captives and big international corporations.

Another newcomer is Sphere Drake Underwriting Management (Bermuda), established in September last year after Mr Jonathan Crawley jumped ship from Aneco Reinsurance to set up, with the help of $50m in capital from UK underwriting group Sphere Drake, a new company specialising in insuring and reinsuring small and medium-sized captives and similar entities, such as risk retention groups, self-insured funds, rent-a-captives and charitable trusts.

In the last four months of 1990 Sphere Drake wrote $7m worth of business, and Mr Crawley estimates that it will write $25m in premiums for the full year 1991.

Patrick Harverson

Native banks' domination threatened

'Quick fix' attacked

"THE GOVERNMENT is seeking a quick fix for the economy. But they may not understand what they are doing." So says the controversial Mr Donald Lines, president and chief executive officer of the Bank of Bermuda.

Depending on your point of view, Mr Lines is either the steadfast guardian of Bermuda's hard-earned financial reputation or the unyielding defender of a lucrative monopoly, unique among leading offshore financial centres.

The quick fix referred to is the government's plan to open up the offshore trust business, at present restricted to the territory's three banks and to three law firms. Within the next two years Mr David Saul, the finance minister, proposes to license up to a dozen major international trust companies, which would probably be subsidiaries of British, American, Canadian and Swiss banks.

These trust companies would not actually get banking licences, so that the local banks would continue to have a stranglehold on deposit-taking and lending business. However, the domestic market would be of little interest to overseas banks, and trust licences would allow them to carry out most of the business they would want to transact in an offshore centre.

Back in the 1960s Bermuda decided to internationalise its insurance industry rather than its banks. The top two native banks, Bank of Bermuda and Bank of N. T. Butterfield, have therefore maintained their domination.

In fact two or three new banking licences were issued in the late 1960s, but only Bermuda Commercial Bank, in which Barclays has a minority stake, and to which it supplies management under contract, remains in business independently. Even so it has been struggling – recording a net loss of $1.6m in 1990 – and has largely pulled out of retail banking to concentrate on corporate and trust activities. Assets were $420bn at the September 1990 balance sheet date.

Perhaps it is not surprising that BCB's managing director, himself a Barclays man on secondment, should enthuse about the scope for opening up the Bermudian banking sector.

"Huge amounts of business go elsewhere because there are no international banks here," Mr Richard Francis points out. He says exempt companies in Bermuda have over $60bn of assets, but foreign currency deposits in the island are only $7bn and securities funds amount to just $5bn.

That leaves on his calculation $48bn which has disappeared overseas. He points out that although there may be only three banks licensed in Bermuda at any time, there are several more in hotel rooms operating unofficially as "suitcase" banks. "Carpetbagging banks are taking the business away," he claims. "We have to bring some of that back to Bermuda."

The Bank of Butterfield is even less enthusiastic about the intrusion of outside trust companies. "We have difficulty in seeing what the government think they will receive back by permitting external companies to operate," says Mr Charles Gunn, the deputy general manager in charge of the trust department.

Still, the implications for banking operations could be positive, he thinks. "We are going to see some very good opportunities in the next couple of years."

Butterfield raised its net income from operations from $19.4m to $21.1m in the year to June, and its balance sheet total was stable at just over $3bn. In contrast, Bank of Bermuda suffered a marginal fall in net income to $27.5m for the same period, and its total assets reached $5.8bn. Bank of Bermuda is larger in its corporate and offshore activities, but may be rather smaller in terms of domestic retail banking.

Bank of Butterfield has stolen a march over its bigger rival by obtaining a branch banking licence in London, where its upgraded City operation – including the stockbroking firm Seymour Pierce – is due to be functioning before the end of this year.

This reopens something of an old sore in that Bank of Bermuda was turned down when it negotiated for a London licence in the late 1980s. Although the Bank of England was initially welcoming, it then changed tack and ruled that the lack of local supervision in Bermuda disqualified the Bermudian banks from full recognition in the UK.

Butterfield's subsequent admission to London this summer reflects the recent beefing-up of regulation in Bermuda. Mr Malcolm Williams, an ex-Bank of England official, was recruited from Bahrain to install a structure of banking supervision, and has subsequently been appointed as general manager of the Bermuda Monetary Authority.

The BMA has been given the powers to regulate and inspect, and it now requires regular reporting by the banks. "We at the BMA can now give the necessary comfort to the Bank of England," says Mr Williams.

Meanwhile Bank of Bermuda has established branches in Luxembourg and New York, and plans to set up an operation in Dublin's International Financial Services Centre, which will give it access to European Community markets.

It has a representative office with 34 people in London. But, says Mr Lines: "We have no present intention to set up a full branch in London. We have our hands full at present."

Both Bank of Bermuda and Bank of Butterfield are niche banks in world terms, seeking to develop offshore networks in places like Hong Kong, Luxembourg, Cayman and the Channel Islands. Internationally they are in substance trust companies rather than banks, which has saved them from damaging involvement in third world or international corporate debt.

Compared with its near $6bn of deposits, Bank of Bermuda has mutual funds under administration globally of $17.1bn, and this excludes private banking assets.

Mr Lines points to the risks of going downmarket, and of undermining the reputation that has been laboriously built up for the territory over many years. "Our image as the premium location for trust business could quickly be destroyed," he warns.

But it appears that the government no longer believes that what is good for the Bank of Bermuda is necessarily good for Bermuda.

Barry Riley

OFFSHORE TRUSTS

Opening for international banks

WITHIN THE next few weeks, several Bermudian accounting and law firms hope to obtain licences to set up offshore trust companies. This will represent the first expansion of the sector for some years, and follows the coming into force of a new law last month to regulate offshore trusts.

It has already been possible for local professionals to act as personal trustees to offshore trusts, but this is really practicable only in cases where there are individual relationships. For the purposes of international marketing, a corporate structure is regarded as crucial.

More radically and controversially, the government has plans to open up Bermuda to big international trust companies one by one over the next couple of years. These will typically be offshoots of major international banks.

Mr David Saul, the finance minister, talks about issuing six licences in 1992 and another six subsequently. "If they will bring business to Bermuda and enhance our reputation, they will get a licence," he says.

In the meantime the accountants and lawyers are pressing ahead. Cooper & Lines, for instance, which is the Bermuda arm of Coopers & Lybrand, is setting up two companies. "Bermuda can offer to a European resident a viable trust domicile," says partner Mr Raymond Medeiros, although he thinks the potential may be less in the case of a US resident.

The finance minister talks about six licences in 1992 and six thereafter

Mr Gregory Haycock of KPMG Peat Marwick is also keen to exploit the new opportunity. "Business is coming from clients that know Peat Marwick as an institution but don't know the Bank of Bermuda or the Bank of Butterfield," he says.

But Mr Haycock is anxious that quality standards should be maintained. He expresses concern, for instance, about so-called asset protection trusts, which can be used to shield people from creditors, or even from ex-wives. "We don't want that kind of business."

Views differ on this subject, however. Mrs Linda Milligan-Whyte, partner in the law firm Milligan-Whyte & Smith, suggests on the contrary that "asset protection trusts are the way to go". But she agrees that the decisions of overseas courts should be respected, and trusts set up with the specific intention of defrauding creditors could be attacked.

Mr Frank Mutch is a partner in Conyers, Dill & Pearman, one of the three law firms that already runs a trust company, and one that is therefore exposed to new competition. However, he expects that lawyers in Bermuda will all see the benefits of a growing demand for various kinds of legal services from the new trust companies.

The banks would be most vulnerable to a wave of poaching of staff

His concern is over the amount of the new trust company work that will actually be done in Bermuda. "I doubt that in some instances it will be very much," he considers. "With faxes, the value-added services can easily be provided overseas. The trend is for clients to have already decided who they want to provide advice."

Meanwhile, there is growing concern that the opening up of the offshore trust business over the next couple of years will lead to a wave of poaching of staff, something to which the banks would be the most vulnerable.

But Mr Saul is determined to go ahead. Already he has received discreet approaches from most of the major international operators in the field. He thinks that, unlike the local accountants, who expect to draw business largely from European locations such as the Channel Islands, the big international trust groups will transfer clients from the Caribbean and Hong Kong, though Europe will be fruitful too.

"Trust business is up-and-coming," he suggests.

Barry Riley

MUTUAL FUNDS

Hopes rise of rapid expansion

AFTER A period of marking time, there are hopes that Bermuda's offshore mutual funds industry will soon start to expand more rapidly. Already the size of existing funds has been bolstered by the strength of most major bond and equity markets over the past year, although new funds have been few and far between.

Statistics are hard to come by, but there may be something like 200 mutual funds domiciled in the island. The biggest custodian, Bank of Bermuda, recently disclosed that it had mutual funds worth $5.2bn under administration in the territory, so the sector as a whole could control investments worth anything up to $10bn.

Growth has been handicapped, however, by Bermuda's virtual exclusion from the vast US market, and by growing competition from European fund administration centres such as Luxembourg, the Channel Islands and more recently Dublin, where Bank of Bermuda is planning to set up a subsidiary. Luxembourg and Dublin are attractive for funds which their promoters wish to sell in the European Community.

Three years ago Bermuda rushed through special measures in order to qualify as a "designated territory" under the UK's Financial Services Act. This meant that Bermudian funds could obtain marketing rights in the UK, subject to compliance with certain conditions. According to Mr David Saul, the finance minister, designated status was important "for the sake of Bermuda's reputation".

Growth has been handicapped by virtual exclusion from the US market

However, disappointingly little has come of it so far in practice, Only one fund, Orion, has obtained recognition from the UK regulator, the Securities and Investments Board, which means that it can be marketed in the UK just like a domestic unit trust and it can, for instance, be listed in the FT with its address and telephone number.

All the same, there are hopes that Bermudian funds will soon become more active. According to Mr Idwal Wyn Hughes, financial secretary to the ministry of finance, two other funds are about to be registered in the UK.

There have also been contacts with Japan, which only accepts overseas mutual funds from OECD member states, including offshore competitors such as Luxembourg and Ireland. After lengthy negotiations, Japan has agreed that Bermuda has OECD status through the UK, but it still regards the island as a dependency, and therefore not acceptable as a base for funds.

In contrast, funds from Jersey and Guernsey have been declared eligible for marketing in Japan because the Channel Islands have a slightly different constitutional position.

Bermuda is notable as the international base of the US mutual funds giant Fidelity – Mr Saul doubles as head of Fidelity International – and several other international groups such as GT are represented. Then there are the local bank funds, such as Butterfield's Buttress series.

"You can see things more clearly if you are far away from the centre"

According to lawyers such as Appleby, Spurling and Kempe, mutual fund activity has been quiet for much of this year, but recently the number of inquiries has picked up, suggesting that more new funds could be launched soon.

Only the banks and one independent company actually manage portfolios in Bermuda, as opposed to simply handling the administration there, but there are hopes that an actual investment management industry could develop. The single independent in question is Orbis, which arrived from Hong Kong and now runs three Bermuda-based global equity funds, helped by a research offshoot in London.

Mr Geoffrey Gardner, its investment manager, is involved in the development of a local society of financial analysts, which now has 50 members, and helps to train Bermudians for the US qualification of chartered financial analyst.

Modern communications, he says, make it much more practicable to manage portfolios from an isolated location such as Bermuda. "You can see things more clearly if you are far away from the centre," he says.

Barry Riley

Patrick Harverson on how the lifeblood of the local economy has been coping

Tourism feels a chill from the US

THEY USED to say that when the US economy caught a cold, European economies caught the flu. In Bermuda, where tourism is the lifeblood of the local economy and where more than four out of every five visiting tourists are American, the US recession has left the island feeling distinctly poorly.

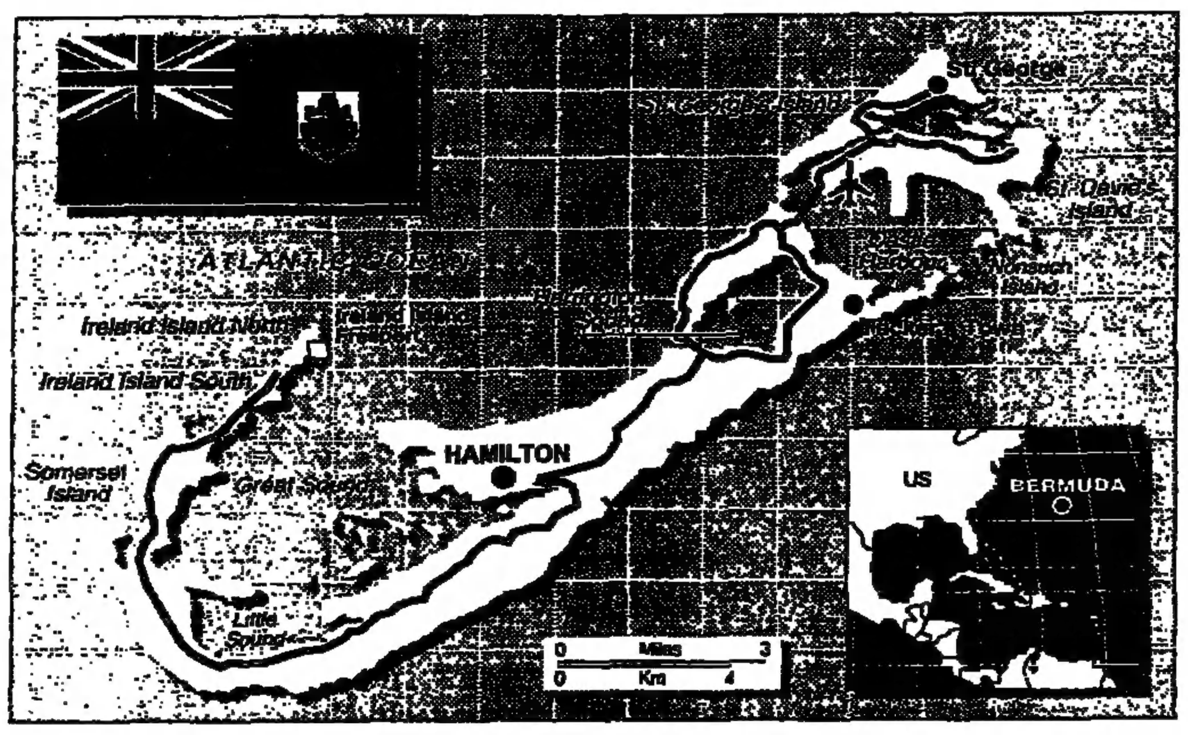
Bermuda has been particularly afflicted by the economic chills of its neighbour because so many of the island's visitors come from the north-east of the US, where the recession has been most severe. Always an expensive place to visit at the best of times (even for well-off Americans), Bermuda has seen the number of US visitors drop as purse-strings have been tightened in New York, Boston and Philadelphia.

Bermuda tourism was also hit by the Gulf war, though perhaps less so than other vacation spots favoured by American holidaymakers. Fear of terrorist attacks on US airlines, and the feeling that it was improper to go away on expensive foreign holidays when the nation's soldiers were fighting in the Middle East kept many Americans at home.

The impact of the war on Bermuda, however, was tempered, partly because of its proximity to the US (it lies only 568 miles east of North Carolina so it feels a safer, less far-away place for nervous Americans) and partly because of the political stability and high level of security that the former British colony boasts.

Although the worst of the slump in tourism is probably over (the US economy is coming out of recession and Americans' fear of travelling abroad has abated) the effects will be felt on the island for some time to come. According to the most recent figures, the number of tourists who have visited Bermuda so far this year is down about 14 per cent from last year's total of 547,318, which itself was down on 1989 and well below the peak in 1987 of over 631,000.

The headline figure, however, can be misleading. About 13.5 per cent of the island's visitors arrive on cruise ships, stay for only a day or two, and spend relatively little money on local goods and services. Tourists who arrive by air are the ones that matter, but here the numbers are also down by almost 14 per cent.



The majority of visitors by air are North American, middle-aged or older, and a significant number are making return trips. The high repeat factor – last year 42 per cent had been to the island before – provides a strong backbone to Bermuda's tourist industry. The warm weather, comfortable lifestyle and safe streets attract older, wealthier visitors back, and their custom means the country is better insulated against the vagaries of fashion that afflict other holiday resorts.

Retailers have been hit by the drop in tourists. Curbs on cruise ships in Bermuda's harbours make matters worse

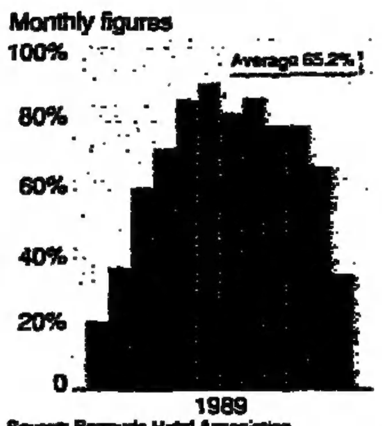
If the number of visitors to Bermuda has been declining steadily in recent years, so has the prosperity of its hotels. Troubled by high costs (hoteliers blame the unions for making excessive wage demands), intense competition and weakening demand, the island's hotels record one of the lowest rates of return on investment in the world. In 1989 just 13 per cent of revenue was produced as income, compared with an average for comparable hotels worldwide of 32 per cent.

Already this year several large hotels have announced that they will close for the winter. While they claim that the closures are needed for redecoration and refurbishment, and some work is undoubtedly needed to meet new government-imposed quality standards, after a poor summer hotel owners will welcome the savings to be made from shutting down and laying off staff for the slow winter months.

On top of those closing for the winter, there are at least two large hotels that have been mothballed for several years and that look as if they will lie idle for the foreseeable future: the former Club Med (and Holiday Inn and Loews before that) near St George, and the Bermudiana in downtown Hamilton.

The remoteness of the St George site was a major drawback for Club Med and others, while Bermudiana appears to have suffered from its proximity to the more luxurious Princess hotel across the road. Hamilton, it seems, was not big enough for both, although locals and the Bermuda ministry of tourism argue that the Bermudiana lost its way because its owner, Forte, the UK group, did not seem fully committed to the hotel.

Hotel occupancy



Source: Bermuda Hotel Association

Although big hotels have closed and others are less than full, the Bermudian government has granted permission for a new 400-room Ritz-Carlton on the south shore of the island. However, the new Ritz-Carlton will not add to the total of beds on Bermuda, which the government holds at 10,000.

While the hoteliers have suffered from the drop in tourists, so have Bermuda's shop-owners, who have also been hurt by a fall in domestic consumer spending. Moreover, the government's decision to cut the number of cruise ships allowed to dock in Bermuda's harbours has made matters worse for the retailers.

Ironically, the cut was introduced because too many cruise ship passengers were stopping in Hamilton. The cruise ship issue came to a head in 1986-87, when 158,000 passengers went ashore, clogging the shops, restaurants and the streets and generally making life difficult for locals and hotel residents alike.

In keeping with Bermuda's avowed intention to minimise the ecological impact of tourism, the government agreed to reduce cruise visitors to 120,000 by limiting visiting ships to four a week, spread between Hamilton, St George in the east and Dockyard in the west of the island.

The reduction in cruise ships, however, combined with the US and local recession, left shopowners (who had supported the cuts) worryingly short of customers. Although publicly remaining loyal to its 120,000 target, the government has been allowing an extra cruise ship or two into the island to ease the retailers' burdens.

Of equal concern to the island, however, is British Airways' decision to cut from four to two the number of its weekly flights from London during the winter. BA blamed the excessive cost of flying to and from Bermuda and of maintaining staff on the island for a decision which has left a nasty taste in the mouth of some Bermudians, who feel BA has long abused its monopoly position by charging excessive amounts for what are usually scarce seats.

Mr Jim Woolridge, the island's veteran tourism minister, says he has been in talks with other European airlines about flying to Bermuda, but at the moment nothing appears to be in the pipeline. If Virgin, or Lufthansa, say, were prepared to fly to Bermuda, Mr Woolridge says the UK government has indicated it would allow a rival to BA to open a route to the island.

Attracting visitors from outside the US and UK is an important part of Bermuda's future. Aware of its over-reliance on North American tourism, the government has begun to market the island's wares more aggressively on the European continent (there are high hopes of breaking into the German and Scandinavian markets) and in Japan, whose golf-mad tourists would find Bermuda's rich fairways and greens a big draw. It has also tried hard to sell the cooler winter months, where the temperature often averages a pleasant 70° Fahrenheit.

Tourist haven: warm weather, comfortable lifestyle and safe streets

Bermuda's problem, however, is that it has to compete with rival islands in the Caribbean, where the sun shines hotter all round the year, where accommodation and flights are often cheaper and the local life more exotic, and where the beaches look just as attractive in travel agents' brochures.

Yet, no one is suggesting that Bermuda as a tourist destination faces a crisis. Its fine summer weather, beautiful pink beaches, warm blue seas, safe streets and ample sporting facilities remain a powerful lure to the traveller seeking a more measured pace of life.

All of the above makes Bermuda especially popular with older tourists, particularly from the US. According to the World Tourism Organisation, people over 55 will grow from 21 per cent of the US population to about 27 per cent by the year 2010. Given that 80 per cent of all visitors by air to Bermuda are over 50, the ageing of America could prove the key to securing the future prosperity of the island's tourist business.